

# Nation's Business<sup>®</sup>

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**Disabilities Law:  
Avoid The Pitfalls**

**Transition Time  
For Franchising**

**The Growing Demand  
For Skilled Temps**

## ***Small-Business Outlook***

# **Hang Tough**

*The 1994 economy  
will see only  
moderate growth,  
and entrepreneurs  
need to remain  
in a survival mode.*

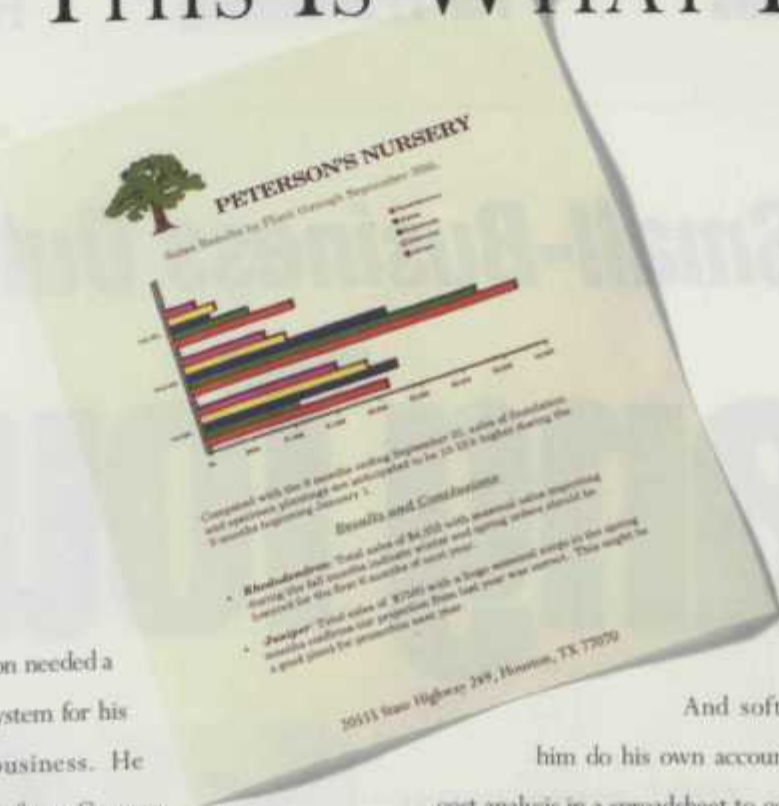


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PHOTO: ISANTA RADIO-BLACK EBM

Economic forecasts for 1994 paint a mixed picture that is reflected in the expectations of small-business owners such as die manufacturer Harlan Whichello, who foresees rising sales but continuing cash problems. Cover Story, Page 18.



PHOTO: GILDA SUE SCOTT

Serving customers' preferences—a Juice Club tenet—can help firms prosper in '94. Franchising Special Guide, Page 49.

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The economy will grow only moderately, and entrepreneurs need to remain in a survival mode while awaiting the return of consistently strong growth.

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The free-trade pact makes North America the world's richest market.

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# Editor's Note

## A Time For Caution

The cover story of our first issue of each new year provides a unique service—an economic outlook based on the specific interests of small business. We are proud that these forecasts have been consistently accurate and have given readers a reliable basis for business planning. We are confident that this year's report, which was written by Senior Editor John S. DeMott, meets the same standards. It has been one of the most difficult to compile in this annual series because many of its initial findings appeared to be contradicted by the surge of good economic news in the closing weeks of 1993. But we checked and rechecked our figures and findings. Looking behind the news reports of the day, we found that many basic factors warranting a cautious attitude toward 1994 are still strong. You'll find the details behind this reasoning in this story beginning on Page 18.



PHOTO: GEORGE CALDWELL

Partners Calvin B. Grigsby and Napoleon Brandford III manage municipal bond issues. *Making It*, Page 13.

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Congressional approval of the North American Free Trade Agreement (NAFTA) followed one of the most intense national debates on a public-policy issue in many years, and the suspenseful vote in the House of Representatives was an occasion of high drama. While those events faded quickly from the news reports, the full story of the significance of NAFTA has only begun to unfold. The first step, of course, is the implementation, which is the subject of an article on Page 24. It is the first of many stories that we will be running to help you realize the advantages of this historic trade pact.

Both of the articles mentioned above deal in a substantial way with transitions, and so does a third offering in this issue—the special report on franchising. Representatives of franchisors and franchisees are working to improve relationships so both can operate more effectively. This article covers that phase of current activity as well as the steps being taken or proposed at the federal and state levels of government. This report is a valuable update for everyone with a direct or indirect interest in franchising. It begins on Page 49.

Robert T. Gray  
Editor

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Cover Photo: © Ned Gillette—The Stock Market

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## Letters

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## When A Company Is Twice Penalized

Regarding your November cover story, "Small Firms' Stake In Health Reform":

We can deduct the cost of employee health coverage, but because my partner and I are considered majority stockholders of our S corporation, our own health insurance is not a deductible business expense. We must report as income any company-paid premiums. We are thus penalized twice. Your article notes that President Clinton's plan calls for a 100 percent deduction for insurance costs of the self-employed. I am willing to pay part of our employees' costs. The president proposes that employers pay 80 percent, but I think a 50-50 division would give workers more incentive to help keep costs down.

Larry J. Neppi  
*President*  
*Iowa Farms*  
*Associates, Inc.*  
*Fort Dodge, Iowa*

## A Voucher Plan

In place of President Clinton's intrusive, bureaucracy-heavy health plan, I recommend a system of medical-care vouchers. The federal government would issue them to every family with an income under \$48,000 a year and to charitable and other nonprofit organizations for distribution to the needy with high medical expenses. The government would keep costs down through voluntary pricing guidelines, regional pools of home medical equipment, and longer patents for drug companies in exchange for lower prices. One source of funding for this plan would be sale of some of the federal government's vast landholdings. More money would be available through savings on current costs of administering those lands.

John McDowell  
*Plainfield, Iowa*

## Let The Free Market Do It

The president seems to be promising that no one will have to pay for medical care because it will be paid for by someone else. Everyone, however, will pay either in taxes or in price increases.

Let's allow the free market to correct unfairness. Let's keep the government out of it.

Ronald M. Burgener  
*Katy, Texas*

## A Compromise?

Your editorial in November on health care supports universal coverage and other aspects of President Clinton's proposal while calling for compromise in other areas. But the government can't live on the money it steals from its citizens, and now it is going to orchestrate and implement (by force) a health-care system through socialized controls. And you advocate compromise!

Ron Munroe  
*Credit International Corp.*  
*Bothell, Wash.*

## What Is At Issue

The Clinton plan's numbers are totally unrealistic. The small-business argument against this plan must not focus on ability to pay because very few of us would not be able to absorb or pass along the costs. The true issues are whether this country wants government to expand drastically, whether central control is good for the

economy, and what happens to subsidies now being offered to small business when the government runs into \$500 billion deficits as a result of this new entitlement.

Jim Reid  
*Reids' Harvest House*  
*Chester, Ill.*

## Surrogate Parents?

Employees should have an opportunity to buy affordable health insurance for themselves and their dependents. Employers should be able to decide on their own what benefits they offer to their employees. Employers should not have to assume the role of parents.

Janie Driver  
*Arlington Automatics*  
*Grand Prairie, Texas*

## Disaster Planning Often Overlooked

Your September cover story on advance planning to cope with disasters, "Prepare For The Worst," examined an important but often overlooked aspect of genuine concern to small businesses. We at IBM have recognized its importance in some 30 years of designing recovery systems for businesses. IBM Business Recovery Services offers backup protection in a





total of 16 cities in the United States and 42 countries around the world.

Tom Belz  
IBM U.S. Media Relations  
Washington, D.C.

## When Disaster Strikes

Every business that depends on a computer system should consider protection of its data as a key element in preparation for a possible disaster. The loss of any data, which might be time-sensitive or impossible to re-create, can result in very serious interruptions of cash flow, loss of market share, loss of competitive edge, and decrease in customer confidence.

Mark Tringale  
Data Base  
Bellevue, Wash.

## A Contingency Plan

The article should have noted the impact of employee-related disruptions, such as absence, accident, error, or willful act. Damage done by employees can have immediate impact or go unnoticed until it reaches catastrophic proportions.

Daily operating procedures and job descriptions should be included in a contingency plan. Guidelines for normal operating conditions will serve as the

blueprint for defining their recovery counterparts.

Joanne R. Piersall  
J R Piersall Consulting, Inc.  
Mount Kisco, N.Y.



PHOTO: GORDON BUTLER—BLACK STAR  
Disasters like the 1992 Los Angeles riots spotlight some firms' vulnerability.

## More On The SBA's 504 Loan Program

Thank you for the excellent article "Cashing In On 504 Loans," in the December

issue. Two points need to be raised, however:

1. A borrower does not have to be turned down by a bank before seeking a 504 loan from a certified development company. This is not a "last-resort" loan program.

2. A borrower is welcome to initiate contact directly with a certified development company. As a trade association for certified development companies, we will happily provide information to those who call us at (703) 812-9000.

Ken Lueckenotte, President  
National Association  
Of Development Companies  
Arlington, Va.

[Editor's Note: Concerning the first point, the Small Business Administration's 504 loan application requires the participating bank to submit in writing "the reason why it will not finance the entire project."]

Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations we cannot print all letters received, and those selected for publication may be condensed.

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# Entrepreneur's Notebook

By Kerry Krouse Thompson-McCoy

## A Time To Sew, A Time To Reap

I didn't get into business to make a fortune. I got into it to make ends meet. So where a lot of entrepreneurs pull money out of their businesses, I never take much more than what I need to live. Of course, in the 19 years since I started Arkansas Flag & Banner, there hasn't always been much to take, but I am now at the point where I can see my strategy someday paying off in a big way.

In 1974, in the middle of a recession, with a year of vocational training, I got a job selling flags in Dallas. That lasted six months. I then moved home to Little Rock, and, sensing opportunity, asked a state official where Arkansas got its flags. As it turned out, they were from out of state. I thought I could do better. So with \$400 and a supplier of flags, I went into business at a desk at my father's bill-collection agency.

With no money to work with and no credit to speak of, building an inventory was difficult. Every time I got an order, I spent the money providing one flag for the customer and one for stock. I took part-time jobs to pay the bills.

In 1979, married and pregnant, I moved the business into my home. I spent \$250 on an answering machine—that's what they cost back then—and more on inventory. Working alone for about five years, I almost gave up. I was earning enough to pay the bills, but I was burned out enough to get a real-estate license and consider quitting.

Persuaded by a friend to stick it out, I hired a helper and bought Yellow Pages ads in seven states around Arkansas. The response was so good that I moved the business into an old rental house my family owned in downtown Little Rock. My mother gave me a year rent-free.

Sales began to take off, and orders were beyond our capacity. We needed more equipment to speed up production. I

*Kerry Krouse Thompson-McCoy is president and founder of Arkansas Flag & Banner Inc., in Little Rock, Ark. She prepared this account with Nation's Business Contributing Editor Charles A. Jaffe.*

*Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*



PHOTO: DWESLEY JET

**Kerry Krouse Thompson-McCoy** has been selling banners and flags for 19 years.

borrowed about \$7,000 from my mother to pay for a computer and a plotter to make vinyl banners, products that had a lot of customer interest but few vendors. Then I hired a seamstress. The investment in equipment and personnel paid for itself, and the business kept growing.

When Iraq overran Kuwait in August 1990, demand for flags intensified. Swept up by Gulf War patriotism, our customers bought everything we could produce. After a few weeks, there was nothing left on the shelves. I decided to pump the revenue back into the business. To expand our selection of products further, I hired two local men to build from scratch a screen-printing table, which enables us to mass-produce banners.

It was another big investment, one I had planned to put off for a few more years. But I wasn't going to miss out on an opportunity.

It's understandable when an entrepreneur wants to take money out, but failing to put money back into a business can really short-circuit growth. For me, each reinvestment, from the answering

machine to the screen-printing table, was a product of faith and determination. As long as Arkansas Flag & Banner paid for the house, utilities, and food, the rest of the money could stay in the business. I always assumed I'd get a payoff.

As Arkansas Flag has grown into a full-service company, so, too, has the demand for money that has to be put back into the business. Where the \$250 answering machine was a stretch, today it's \$2,500 computers, \$8,000 software packages, and more.

Last year, the company landed its biggest deal ever: a \$200,000 order to provide flags and banners for countries participating in the Central American and Caribbean Games, which were held last fall in Puerto Rico. The company has 15 workers now. Last year was our first with \$1 million in sales. Things keep looking up and are almost at the point where I don't need more equipment to run with the big boys.

Once I get to that point—and it has been a goal for the entire 19 years—I can invest a little bit more in my employees and maybe pay myself better, too.

To be honest, my paycheck hasn't grown in a few years, largely because I haven't needed it. But I figure that I'm worth something because I own the business and it has value—more every day—even if I don't pocket a lot of money.

That's not the way a lot of entrepreneurs build their fortunes, but, then again, there are a lot of business people out there who have trouble making ends meet.

## What I Learned

*Succeeding as an entrepreneur is an exercise in faith and determination. After you pay the bills for the house, the utilities, food, and other personal expenses, consider pumping the rest of the money back into the business. That's how a company grows.*



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# Dateline: Washington

Business news in brief from the nation's capital.

## BUDGET AND TAXES

### Senate To Weigh Spending Cuts

When Congress reconvenes in late January, it will be the Senate's turn to demonstrate the strength of its commitment to reducing the federal budget deficit.

Just before adjourning for 1993, the House approved the least-ambitious of several spending-reduction plans under consideration, a proposal backed by President Clinton. But critics say it will not reduce the deficit at all. The measure, H.R. 3400, calls for spending reductions in fiscal years 1994 through 1998 of \$37 billion, achieved mostly by reducing the federal work force by about 250,000. Opponents point out, however, that the measure does not stipulate that savings be earmarked for reducing the deficit.

Earlier in 1993, Congress passed and the president signed into law a fiscal 1994 budget bill, the Omnibus Budget Reconciliation Act of 1993, that the administration projected would reduce cumulative annual projected deficits by \$496 billion over five years.

At that time, the president persuaded some lawmakers to support the legislation

## U.S. Deficits Since 1984

In Billions



by assuring them that further spending cuts would be considered later.

Before passing H.R. 3400, the House narrowly defeated the most far-reaching plan before it—an amendment by Reps. Timothy J. Penny, D-Minn., and John R. Kasich, R-Ohio, that would have reduced annual deficits by a total of \$90 billion over five years by cutting current spending programs.

Now it will be the Senate's turn to take up H.R. 3400 as well as one of the most aggressive spending-reduction proposals, an amendment by Sens. J. Robert Kerrey,

D-Neb., and Hank Brown, R-Colo., that would slash outlays \$109 billion over five years.

Fiscal conservatives claim that even if the Senate goes no further than the House in pursuing deficit reduction, this round of votes will have been worthwhile. Says Kasich: "There is no question that if this bipartisan group [of lawmakers who voted for the Penny-Kasich proposal] can stay together, they are going to write the next budget for the country."

—Albert G. Holzinger

## IRS Issues New Audit Guidelines

The Internal Revenue Service is giving its auditors and revenue agents industry-specific guidelines to help them do audits of companies more effectively.

The program is expected to affect most businesses, especially smaller companies, over the next several years, says Cornelius Coleman, a senior consultant in the Washington, D.C., office of the accounting firm of Coopers & Lybrand. Smaller firms dominate many of the industries to be addressed in the guidelines, he says.

The effort, called the Market Segment Specialization Program, is part of the IRS's move to improve its voluntary compliance rate. The service estimates that by improving compliance by 1 percent, it can collect an extra \$7.5 billion in revenue each year.

The agency recently issued audit guidelines for seven industries: law offices, air charter companies, bed-and-breakfast establishments, trucking companies, taxicab operators, gas retailers, and mortuaries.

Nearly 80 other kinds of businesses are expected to be covered in additional guidelines. Among them will be automobile dealerships, commercial fishing operations, beauty shops, liquor stores, construction and real-estate firms, and health-care businesses.

The IRS says the guidelines are designed to educate revenue agents and tax examiners on how particular industries function and how audits of companies within those industries might be more productive. For a free copy of audit guidelines already issued, write to the Internal Revenue Service, Freedom of Information, P.O. Box 3888, Ben Franklin Station, Washington, D.C. 20044.

—Joan C. Szabo

## FINANCE

### SBA-Guaranteed Financing May Be Harder To Get

Entrepreneurs hoping to build a business with a loan backed by the U.S. Small Business Administration may find lenders more wary than ever about signing off on risky ventures.

The SBA won congressional approval last summer to reduce the average percentage of a bad loan the agency would cover under its 7(a) guaranteed loan program. The agency now covers on average about 75 percent of a defaulted loan, down from 81 percent previously.

Although it is too early to judge the full impact of the change, many individuals

familiar with the program warn that it will probably cause some bankers to think even harder before approving entrepreneurs' loan applications that are tied to the SBA program. But SBA Administrator Erskine Bowles recently told reporters that closer scrutiny of loans is the key to helping the SBA reduce its default rate and, by doing so, stretch the 7(a) program's money further. In 1993, the SBA guaranteed \$6.4 billion in loans under the program. The goal is to boost that to about \$8 billion this year.

For more information, see "A Potential Crunch In SBA Loans," in the August 1993 issue of *Nation's Business*.

—Laura M. Litvan





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# Managing Your Small Business

*Minimizing job losses; putting a cap on phone costs; keeping workers happy.*

By Roberta Maynard

## WORK FORCE

### A Creative Alternative To Company Downsizing

Managers often find that their workers have the perspective to provide innovative solutions to difficult problems. That was the case with Rhino Foods, a maker of specialty desserts in Burlington, Vt., when it faced the prospect of laying off some of its 50 employees last spring.

Ted Castle, president of the company, gave the workers a tough challenge: Find a solution that would save money while minimizing job losses.

A committee of more than half of Rhino's work force suggested lending employees to neighboring businesses.

After talking with 15 local companies, the committee found two that needed workers on a short-term basis. The companies also met Rhino's other criteria: having similar corporate philosophies and sharing Rhino's concerns about social responsibility.

The two companies were Gardener's Supply and Ben & Jerry's. (Rhino supplies the cookie dough for Ben & Jerry's cookie dough ice cream.)

Ten employees were committed to work at Gardener's Supply and Ben & Jerry's for several weeks. Rhino continued to pay the workers, and the participating companies reimbursed Rhino. One company actually paid a higher wage, which Rhino passed on to the employees involved.

Castle allayed the initial reluctance of companies and workers by confirming with his insurance company and others that the arrangement would not affect benefits or workers' compensation.



PHOTO: GAILAN JAVIER

**Surrounded by employees** he "lent" to other firms when they needed more workers and he needed fewer is Ted Castle, president of Rhino Foods, a specialty-desserts maker.

Some other Rhino workers were assigned to do community service on the company's payroll, which allowed them to return to work on short notice as they were needed.

Castle, who was named Vermont's 1992 Small Business Person of the Year, says he is glad that he was able to spare his employees some heartache. "Not only did we avoid the stress and pain that laid-off employees and their families feel, we built

a level of trust at the company that's impossible to measure," he says. "I think what we've done is develop a staffing plan that bears in mind business ups and downs and eliminates the negatives of downsizing."

Would he do it again? "Oh, definitely. In fact, we are now in a hiring mode, and we're talking to other companies to see if we can get people from them on a short-term basis."

## COOPERATIVES

### Index Tracks Growth Of Top Co-ops

The fastest-growing area among cooperatives is the health-care field, according to a first-time listing of cooperatives.

The National Cooperative Bank (NCB), based in Washington, D.C., has created a listing of the top 100 U.S. cooperatives with individual revenues of more than \$200 million.

Cooperatives are business structures formed to create economies of scale for the small businesses they represent. "Joining a cooperative," says Charles E. Snyder, NCB's president and CEO, "pro-

vides a small business with the opportunity to lower its costs, gain buying power, and compete as part of a larger entity rather than trying to make it on its own."

The three health-care co-ops in the listing collectively had 18.1 percent growth in 1992; the largest growth rate—28.8 percent that year alone—was posted by Group Health Cooperative of Puget Sound, in Seattle.

The 45 agriculture co-ops, the largest segment in the top 100, experienced 2.4 percent growth in 1992. The five hardware co-ops grew by 9.5 percent, and the 14 utility co-ops by 2.4 percent.

The 25 food co-ops saw a 1.4 percent decline, and the five finance co-ops had a 14.4 percent decline. The median change among the top 100 co-ops in 1992 was 2.7 percent growth.

The cooperatives in the NCB listing are made up of more than 2 million small businesses.

Among the best-known large co-ops are Land O'Lakes and True Value Hardware and groups of franchisees of such fast-food chains as Kentucky Fried Chicken and Burger King.

For more information about the NCB Index, call Jane DeMarines at (202) 336-7651.



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## FINANCES

## Phone Debit Cards Help Manage Costs

Are your employees often on the road? Are you looking for a promotional item for clients? Are you interested in a new product to sell? Are you trying to cut phone expenses?

Small businesses with any or all of those needs are discovering phone debit cards—prepaid cards, available in different denominations, that deduct the appropriate charge after a phone call. Typically, users call an 800 phone number and punch in an identification code to access a fiber-optic network.

Tom Lasley, president of Ticketmaster Oregon in Portland, recently began selling phone debit cards called Talk 'N Toss at the windows of the ticket centers he licenses.

The cards, customized with his logo, are produced by Bottom Line Communications, in Vancouver, Wash. Printed on each card is a code number used in accessing the fiber-optic network.

When the value of a card is depleted, the user throws the card away and buys a new one.

Lasley's nine employees sell a \$10 card that has 30 minutes of calls. That's 33 cents a minute 24 hours a day. More-expensive cards offer buyers better 24-hour rates: A \$100 Talk 'N Toss card gives eight hours of calls at 21 cents a minute.

Sprint and AT&T each offer a prepaid phone card for domestic calls with a 24-hour rate of 60 cents a minute.

Lasley is optimistic that the cards will fit well with the services he already sells at his Ticketmaster service. "We have a lot of traffic here and already sell things like [ski] lift tickets," he says. "We have a lot of ideas in mind for the card. I think that there's a big market for this. One of

Neal Isanuk, the company's president. Advantages, he says, include low rates and a variety of features, including no charge for service until a connection is made; a message at the beginning of each call telling how much time remains on the card; and a one-minute warning—audible



PHOTO: BRIAN CRAIG

The phone-call debit cards that Tom Lasley sells through his Ticketmaster Oregon centers are customized with his company's logo.

our employees sends them to her kids at college."

At Speakeasy Communications, in Fort Lee, N.J., all eight staff members have used the cards for over a year. "We have saved more than 50 percent on calls," says

only to the caller—that the card is about to be depleted.

"It's a great budgeting tool," Isanuk says. "We give our salespeople one card per month, and that's what they have to work with."

## LEADERSHIP

## How To Avoid Rankling Your Employees

These days, workers don't want to listen to explanations, excuses, or conjectures from management, says Marilyn Moats Kennedy, managing partner of Career Strategies, a consulting firm in Wilmette, Ill. Here are some management practices that she says managers should avoid if they don't want to rankle the ranks:

■ A "do as I say, not as I do" attitude. The No. 1 employee complaint is that managers fail to fulfill the unstated but cogent obligation to live by the standards they espouse. Younger employees are supercritical of managers who talk the company line but don't live it.

■ Supporting unfair reward systems. Establish results and rewards that are in sync. "Shared sacrifice is a noble but unworkable concept in a company with more than three employees," Kennedy says. "With three, it only works if they're blood relatives."

■ Backtracking and indecision. The manager who vacillates on what he or she wants people to do differently provokes trouble. Sooner or later, employees just stop listening.

■ Team talk, not teamwork. When the

boss talks teamwork but steps in to direct a group that is supposed to be self-directed, trouble ensues. When employees speak contemptuously about teamwork, this is what they mean.

■ Immunity of management from criticism and suggestions. Responding subtly to suggestions is seen as no response. Only visible action will convince workers that you listen.

## NB TIP

## Overseas Overview

Businesses that are interested in finding out more about exporting may appreciate a new booklet called *International Business*, published by the American Institute of Certified Public Accountants. Author Mark F. Murray offers an overview of doing business overseas: advantages and disadvantages; financial issues; the information needed before entering a market; and considerations for setting up an exporting operation. Included are explanations of export terms and phone numbers of government and other sources. For a copy of the 35-page booklet, call 1-800-862-4272. The cost is \$9.50, plus \$2.75 for shipping and handling. (See also the exporting story on Page 57.)

## PLANNING

## Older Firms Less Likely To Update Plans, Study Says

Older firms are less likely to use and update business plans than newer firms, according to a study of almost 900 small companies in Georgia. The finding is significant because other studies have shown a strong link between planning and business growth, says David Kraybill, an assistant professor at Ohio State University who conducted the study.

"Older firms seem to identify a market that they know and then are less likely to look for ways to maximize profits," Kraybill says. The study showed that the more education and training the owners and managers had, the more likely they were to adopt strategies linked to business growth, including planning.

Kraybill's study involved data from face-to-face interviews with owners or managers of 895 companies in 25 Georgia counties. The average participating firm had eight workers; the companies' average age was 15 years. While the study did not pinpoint the average age at which the companies fell off dramatically in their planning, it did show that for every additional year of a company's age, the level of planning dropped slightly.



# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*



PHOTO: SEYMOUR CALDWELL

## Middlemen On The Way Up

By Michael Barrier

Investment bankers are middlemen. They want both buyer and seller to go away satisfied. It is by creating such satisfaction that an investment banking firm grows, especially if it specializes in managing municipal-bond issues. In that field, buyers and sellers have many firms to choose from—and so it says something about the San Francisco firm of Grigsby Brandford & Co. that it has grown so rapidly.

Grigsby Brandford is the largest minority-owned firm in the municipal-bond field. The partners who own it are Calvin B. Grigsby, 46, and Napoleon Brandford III, 41, both African American. They employ about 50 people in nine offices across the country, and they expected their company to finish 1993 having served as the senior manager for municipal-bond issues totaling about \$1.8 billion, more than triple the 1992 figure.

Many state and local governments give minority firms a leg up in competition to manage bond offerings, but minority set-

asides can in fact be a drag on a strong firm's growth, Brandford says. "The problem with set-asides is that the goals become a cap," Grigsby Brandford tries to sell itself not as a minority firm, but as what Brandford calls "a boutique-type firm, specializing in municipals, with some entree into corporate and federal securities."

Both Grigsby and Brandford had piled up impressive financial credentials before they went into business together in 1985.

A native of Hope, Ark., Grigsby worked as a securities lawyer in San Francisco, representing major investment firms, before he founded Fiscal Funding, a company that took advantage of his expertise in a new form of municipal financing called "certificates of participation" (COPs), in 1979.

California's voters had outlawed the issuance of general-obligation bonds, and the only way for many city and county governments to finance capital expenditures was to issue COPs, which were

Calvin Grigsby, left, and Napoleon Brandford have about 50 employees in nine offices across the U.S.

technically leases, rather than debt. COPs became the dominant form of public financing in the state and have since spread to other states.

Grigsby got into investment banking in 1984, after the Securities and Exchange Commission decided that only registered broker-dealers could sell municipal securities like COPs. When Brandford joined Grigsby the next year, he brought "big-firm, public-finance type experience" into the firm, Grigsby says, paving the way for much larger deals involving general-obligation bonds and revenue bonds.

Brandford grew up in East Chicago, Ind., and aimed at a career as a professional basketball player until he was injured in college. After earning a master's degree in public administration, he was deputy finance director in Dade County, Fla., for four years, and then a vice president for public finance with a big investment-banking firm.

When big firms started doing COP deals, Grigsby knew that he had to expand, and he and Brandford have used



## MAKING IT

minority preference to enter "areas outside our niche," Grigsby says. In Eastern cities with large minority populations, he says, "there is a strong political push to show that some contracts are being let to minority firms. We've taken advantage of that everywhere we can."

But the experience has been grating, Grigsby says, because of the stigma that minority preference can impose: "There's a basic mind-set that this person was admitted under this special program, therefore he's dumb. I don't think it's just pure racism."

Grigsby Brandford is, however, building a reputation that has nothing to do with race—by, for instance, seeking out "retail" buyers of bonds, as opposed to the mutual funds and trust companies that are the more typical buyers. California

Assistant State Treasurer Hal Geigoe recalls the "energy and commitment" that Grigsby Brandford put into selling small-denomination bonds intended for retail sale, as vehicles for saving for college.

Another way that Grigsby Brandford satisfies both buyers and sellers, Grigsby says, is simply by lowering its overhead and accepting a smaller commission. "We don't take as much out," he says. "We can get the issuer a better price, and still keep the buyers happy."

Grigsby Brandford will probably not make any special effort to make the leap from managing municipal bond issues to managing corporate bonds and initial public offerings. Those doors are all but closed not just to minority firms, Grigsby says, but to small firms of all kinds.

In any event, there's plenty of room to

grow where Grigsby Brandford is now. "The muni-bond market is as big as the corporate-bond market," Grigsby says, "so if you're ranked very high in that market, you're part of the whole infrastructure, nationally." Grigsby Brandford has already been "decertified" as a minority-preference firm by "I don't know how many accounts," he says, because it has grown so large and successful; now it must compete "straight up with major firms. We've graduated, so to speak."

It's now conceivable, he says, given the way that Grigsby Brandford has been growing, that it could in another decade or two be the No. 1 municipal-bond firm in the country. "It's so crazy to think that we're a real player," Grigsby says, but he smiles as if to say that there's nothing crazy about it at all.

## Stringing Together Successes

By Jesse H. Sweet

**"W**hen we opened S & A Beads in November of 1989, all of our friends and relations thought we had taken leave of our senses," Larry Silverman says of his family's Takoma Park, Md., store.

The friends and relatives turned out to be wrong. The Silvermans say that the store, which sells new and antique trade and decorative beads from around the world, has been profitable ever since it opened—profitable enough that the family opened a second S & A Beads in April 1992 in Rehoboth Beach, Del., and a third last November in the Georgetown section of Washington, D.C.

S & A Beads was actually started by Susan Silverman, 44, and her son, Abraham, 17 (hence the "S" and "A" in the stores' name). But husband and father Larry, 48, a lawyer, has been actively involved.

S & A Beads took root when, at the age of 5, Abraham began making wooden necklaces for his mother. As Abraham and his family became more and more interested in jewelry and beads, they realized that the items had money-making potential.

Before they found a storefront near their home, the Silvermans spent nearly a decade taking their small inventory of beads to flea markets—it was a time that Larry describes as their own personal "Harvard Business School."

"We learned how to price things and what sells," he says. "We learned a lot

from our customers." The three stores employ a dozen people.

S & A Beads is more than just a bead shop. It's a history lesson. For example, priced at \$5,000 is a strand of 300- to 500-year-old six-layer chevrons, so-

named for the six layers of red, white, and blue glass that make up the beads. First made in Venice, they were used by Europeans in Africa to trade for gold, palm oil, silver, ivory, and slaves. Such beads, says Larry, "were the currency of colonialism."

Most of the items, however, are not so expensive. Patrons can purchase a bag of 3,000 seed beads for \$4.50 or hand-carved olive-pit beads from China, no two of which are alike, for \$2 each.

Says Susan: "It's the cultural part that's really important to us, and we like being able to turn people on to the history of beads."

The Silvermans offer classes in bead jewelry-making as a marketing tool and even throw birthday parties, where children learn how to create bead jewelry.

They rely primarily on the Yellow Pages, advertising in local newspapers, and word-of-mouth to promote their stores. "The best advertising is when a little girl comes in and makes herself a pair of earrings, and then goes home to show her mother, her aunt, her grandmother, or friends," Susan says.

Larry is sure that a bead business in the S & A mold could thrive anywhere. But Abraham reminds his father of the potential perils of additional expansion.

It could be difficult, he says, because it is hard to find good, personable employees: "We don't want to give up the personal service and the educational aspect of it."



PHOTO © MICHAEL KEZA

At S & A Beads, Larry, left, Susan, and Abraham Silverman share their enthusiasm with customers.

Jesse H. Sweet is majoring in journalism and political science at Miami University, in Oxford, Ohio.



# Coming To The Aid Of Parties

By Janet L. Willen

**S**ome business owners succeed by following their dreams. Joyce and Brett Galley succeed by fulfilling their customers' fantasies.

The mother-and-daughter team opened the Hollywood Pop Gallery, in Greenwich, Conn., in 1988. For a year and a half, they sold 3-D paintings with movie themes (many by Joyce Galley) and light lunches.

Today's Hollywood Pop Gallery still serves food, but only at catered parties. The gallery has become a party-planning business because that's what the customers wanted.

Customer demand began after Joyce Galley's celebration of her daughter's 21st birthday. During regular shop hours on March 8, 1989, she invited customers to "have a toast to Brett's birthday." For the toast, customers filled little chocolate cups with chocolate mousse from a large chocolate bowl. The party was such a hit, Joyce says, that "people started calling us and saying, 'Could we have our party at your place?'" The Galleys said yes, and "the party business just took off," Joyce says.

They held 50 parties in the first year, all at their 1,000-square-foot store. Custom-

ers began to ask for performers, and the Galleys found disc jockeys, bands, and celebrity look-alikes to fit the occasion. "We became known as the people you could call and get anything you needed for your party," says Joyce.

"Anything" seems to mean whatever it takes to satisfy a fantasy. Children can have their own Alice in Wonderland tea party. Adults can relive *Casablanca* in an exotic lounge, where a Humphrey Bogart look-alike circulates while Sam plays it again, or they can order a cake with a marzipan Marilyn Monroe on top.

Customers now visit the Hollywood Pop Gallery to plan a party, not attend one. Today, the business is located in a smaller, 500-square-foot space. Brett handles the business, interviewing clients, making sales, and hiring entertainers. She had no formal business training. She hoped to be an art dealer, and she took a leave from college to be a partner with her mother in the gallery. She never returned to school. "I learned by making literally every mistake in the book," she says.

Joyce, who designs all the party visuals—room decorations, special effects, specialty cakes, and entertainers' clothes—also has little business experience. She began her career as a fashion designer in New York in 1966. She has been a portrait painter, journalist, and filmmaker.

To plan a party successfully, Brett says, "You have to ask questions. You have to explain everything." She spells everything out to the customer, using photos and videos whenever she can to show an entertainer in action, for example, or display the work of a caricaturist.

Most of the Galleys' parties are in the tristate area of New York, New Jersey, and Connecticut, but they have also catered celebrations in Los Angeles and Miami.

The Hollywood Pop Gallery works within people's budgets, but a party "is a luxury item," Brett says, and a customer has to expect to spend.

While some customers have spent as much as \$75,000 to stage a party, others have spent as little as \$175 to hire a clown for an hour. A four-hour carnival with all the fixings—a greeting on an electronic sign; strobes, beacons, and other fantasy lights; seven or more game booths; a recording booth; and a prize booth—costs about \$3,000. Food, drinks, and decorations are extra.

The Galleys, who won't reveal revenues, say they think their business can be franchised. But they're too busy now to make plans: They catered more than 900 parties in 1993. "Once you're known and people like your services," Brett says, "the phone rings, literally, 24 hours a day." Since they started the business, Joyce hasn't even had time to give another party for Brett.



PHOTO: SARINOLD ADLER

Brett, left, and Joyce Galley of Hollywood Pop Gallery, in Greenwich, Conn., bring a touch of fantasy to their clients' get-togethers.



# Maneuver In A Tight Market.







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## COVER STORY

# Hang Tough In 1994

By John S. DeMott



PHOTO: GUY HENNING

**T**he question most small-business people are asking about 1994 is whether it will produce the long-awaited strong recovery or a continuation of the anemic, uncertain economy of the past few years.

The answer, *Nation's Business* found in its annual economic-outlook survey, is probably neither.

While there was a series of upbeat economic reports in the closing weeks of 1993, the new year will be an edgy transition, a time of pluses and minuses. Small businesses need to hang tough in anticipation of a 1995 breakout from the sluggishness of recent years.

Overall, "this is a survivors' economy; this is not an environment that you want to be rapidly expanding in," says Martin S. Regalia, vice president and chief economist of the U.S. Chamber of Commerce

*Entrepreneur Jack Taylor says his construction firm, Taylor Ball, in Des Moines, Iowa, is in "a tough market" and is pursuing improved customer service as a way to generate new business.*

and a former economist for the Federal Reserve System's Board of Governors. The brisk improvements in some areas of the economy toward the end of the year, he says, "are not sustainable."

The U.S. Chamber is forecasting a solid 3.5 percent real growth in gross domestic product in the final quarter of 1993, but it sees a drop to a range of 2.7 to 2.5 percent throughout 1994.

In contrast, the recovery that followed the sharp recession of 1980-81 was robust, with 3.9 percent GDP growth in 1983 and a scorching 6.9 percent in 1984. During

the expansion years of 1982-89, average growth was 3.6 percent.

Nothing that strong is foreseen by economists for 1994. Alfred J. Broadus, president of the Federal Reserve Bank of Richmond, says the nation is in "one of the most sluggish, most frustrating periods in the post-World War II era," a period that no one sees ending decisively in 1994.

There were, of course, signs in the fourth quarter that the economy was stirring—housing starts up, auto sales up, retail sales perking up for Christmas, a dramatic falloff in unemployment, an upturn in the Index of Leading Economic Indicators, a Federal Reserve report of rising economic activity in most parts of the United States. Nonetheless, these developments were not enough to offset major problems expected to persist into the new year.



# The economy will grow only moderately, and entrepreneurs need to remain in a survival mode.



PHOTO: GREG GILLETTE—THE STOCK MARKET

One of those problems is small businesses' pessimistic attitude toward growth prospects. A U.S. Chamber poll of its members, most of them smaller companies, shows that 60 percent expect no increase in sales at least into the spring, while 81 percent have no plans for expanding their work forces. Nearly 70 percent see no economic improvement into the new year.

Pointing to developments such as the impact of the tax increases President Clinton won from Congress last year, the aging of the baby-boom generation, weak job growth, slowing export sales, and an easing of growth in consumer buying, Regalia says, "Many of these factors will continue to affect the economy for some time to come and are, in large part, responsible for our forecast of relatively low growth."

Unemployment will hold at around 6.6 percent in each of the four quarters of 1994, the Chamber projects, and, on the brighter side, the prime interest rate will average just 6 percent in each of those quarters.

*Blue Chip Economic Indicators*, a monthly report on a poll that its editors conduct among 52 private-sector economists on a broad range of economic issues, predicts a slightly higher prime rate of 6.3 percent.

(Charts on this page and on Page 20 compare the U.S. Chamber and *Blue Chip* outlooks for the new year in other key economic areas—gross domestic product and the Consumer Price Index.)

In addition to existing economic factors, small businesses also report concern about the potential bottom-line impact of Clinton's health-care-reform plan pending in Congress.

Whatever their basis, the small-busi-

ness expectations have extensive ramifications for many sectors of the economy.

The National Small Business Attitudes Survey, which is conducted by Cicco and Associates, Inc., of Murrysville, Pa., says that small businesses have sharply curtailed plans to purchase products and services in 1994. Results of the spending survey, one in a series the company conducts on various subjects in tracking marketing-related attitudes and plans of small business, indicate that such pur-

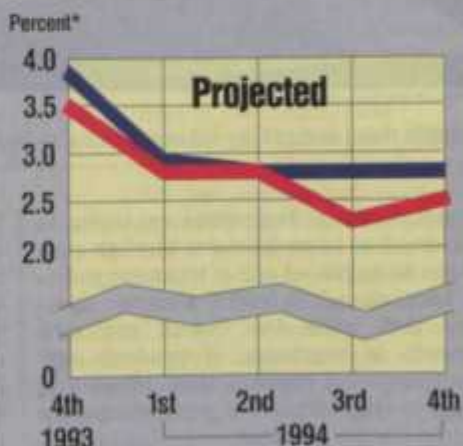
John A. Cicco Jr., president of the polling company, says that not only the numbers but also his extensive discussions with small-business people point to problems deeper than short-term statistics. "I sense a caution, a loss of enthusiasm, even a fear factor," he says.

Like the U.S. Chamber poll, the survey of small-business attitudes found similar caution on 1994 hiring, with those companies that do not plan on hiring outnumbering those that do by nearly 2 to 1.

## Gross Domestic Product



SOURCE: U.S. CHAMBER OF COMMERCE AND BLUE CHIP ECONOMIC INDICATORS



Blue Chip  
Chamber

\*Percent of increase or decrease over previous year or like quarter

chases are expected to grow only 1.4 percent in the new year, down from 2.1 percent expected growth in 1993.

The latest Cicco survey, which reflects the views of a 500-member panel of representative small-business members, covers plans for purchasing in the areas of accounting, advertising, airline travel, information resources, car rentals, computers, credit cards, hotel rooms, insurance, medical coverage, office equipment and supplies, and telecommunications.

Cicco says that "small-business owners see themselves as more and more vulnerable in hiring and dealing with employees." Much of the problem, he explains, results from expanding government regulations that make small businesses wary of hiring. Apprehension over the cost of the pending health-care legislation compounds the problem, Cicco adds.

"Hiring involves too many risks," Cicco says. "When you hire an employee, you are hiring the whole federal agenda." As a



## COVER STORY



PHOTO: GRANT FARRIS-BLACK STAR

Despite rising demand for his companies' auto-industry products, Harlan Whichello expects money problems to persist.

result, he notes, businesses are trying to become less labor-intensive through such steps as increased use of technology.

Cicco cites data from the survey showing that while the overall projected growth in purchases of products and services is 1.4 percent, small businesses plan to buy 5.2 percent more computers and related equipment.

Computers were a major factor in an increase of 17 percent in sales of new machinery last year, and Regalia of the U.S. Chamber also attributes that development to a business strategy of increasing productivity by finding ways to "use the existing work force more intensely."

Douglas Handler, manager of econometric analysis for the business-information firm of Dun & Bradstreet, says of the new year: "The outlook is better than 1993's, but I still wouldn't call it very good." He does see a positive sign in the drop in larger companies' rate of

failures, which can drag down small firms.

The overall small-business view toward the new year is documented by the U.S. Chamber's Business Confidence Index, which is based on the organization's poll of its members. Toward year-end, it was 54.3, up somewhat from its 1993 low of 45.6 in August. Respondents' expecta-

tions added to a sense that the new year will be a time to sharpen competitive skills rather than expand.

Among the entrepreneurs pursuing that course is Jack Taylor, chief executive officer of Taylor Ball Construction Co., in Des Moines, Iowa. He recognizes that he is in "a tough market" and is pursuing an intensive policy of improved customer service as the route to more business.

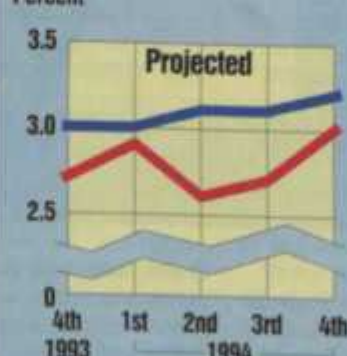
"In the 1980s, we were stressing [our] professionalism," but now we're saying we're also human, that we recognize that the client is making a big investment, and that we realize that it is important to him."

That recognition, Taylor adds, includes planning sessions at which his executives and major subcontractors meet with representatives of the client company "to discuss what we're going to do and why we're going to do it. An amazing amount of dialogue comes through that

## Consumer Price Index



Percent\*



Blue Chip  
Chamber

\*Annualized inflation rate from quarter to quarter

SOURCE: FEDERAL RESERVE, BLUE CHIP ECONOMIC INDICATORS, U.S. CHAMBER OF COMMERCE



way." The client representatives, he explains, range from the maintenance people to the vice president in charge of running the facility being built.

Eric Hall of Grange Insurance in Columbus, Ohio, a midsize property and casualty insurer, echoes the attitude of Taylor and other small businesses toward planning for 1994: "A larger emphasis will be placed on retaining existing customers. People will run twice as fast to stay in place."

George Rakoczy, who owns a construction company in Lancaster, Pa., is among the small-business people who see little cause for optimism. He expects a 38 percent drop in sales in his fiscal year ending in May. He says he has seen reports of strong computer sales, "but other than that, there's been nothing but cutbacks that I'm aware of."

In an effort to improve his own business, Rakoczy has set up a marketing department to support sales efforts. "To crack new territories is very difficult," he says, but he adds that the in-depth proposals—some run 50 to 60 pages—that his company prepares for clients are part of its intensified marketing efforts.

When it comes to competitive strategies, Cheryl Russell, a consultant in Ithaca, N.Y., who specializes in the impact of demographic trends on business, says: "What's required today is ruthless efficiency. There's just no room for any fat. You need a continual re-evaluation of business operations to try to find ways to do things more cheaply and faster and faster." She offers this advice to small companies coping with the challenges of the uncertain economy of the 1990s:

■ Stay alert. "You've got to be on your toes all the time. There's no rest for anyone anymore."

■ Don't expand in 1994. "Consumer sentiment is way down, and until people start feeling better, I wouldn't advise anyone to expand."

■ Tailor products as much as possible to the individual customer. "You've got to be open and available whenever your customer wants your product."

■ Don't try to compete with the larger stores on price. Instead, specialize and offer something different. A local hardware store, for example, could invite city building officials to lead seminars for do-it-yourselfers.

And, says Russell, author of *The Master Trend—How The Baby Boom Generation Is Remaking America* (Plenum Publishing), entrepreneurs should stay optimistic. She points out that household income, adjusted for inflation, is only 6 percent below its 1989 peak and predicts it will go back up. She remains optimistic that rigorous efforts to stay competitive in the short term will eventually be reward-

that economic conditions will begin to improve in the coming year, and that should mean greater access to credit. "As the economy improves, the risk of not being repaid for a loan goes down, and so then you would expect a greater flow of credit," he says.

Other experts see continuing problems in specific areas. For example, Lyle Gramley, consulting economist for the Mortgage Bankers Association, in Washington, D.C., says that "there isn't a lot of credit available to finance apartment construction." A large number of lenders "got burned" on such loans in the past, he says.

Apartment construction is an area with a strong ripple effect that extends beyond building contractors to manufacturers and suppliers of building materials, carpeting, furniture, home appliances, and such amenities as exercise rooms and swimming pools.

And sometimes, even strong sales aren't enough to head off credit problems. Harlan Whichello, whose two Detroit companies supply dies and injection molds to the automobile industry, expects record revenues but also continuing money problems in the coming year.

Although rising automobile sales have increased demand for his companies' products,

customers typically pay only when work is done and not in installments as the work moves through phases, Whichello explains, and the banks he has dealt with won't lend money for work in progress. "I'm carrying the largest amount of work in progress I've probably ever had," he says. So in 1994, "I'll have money problems again."

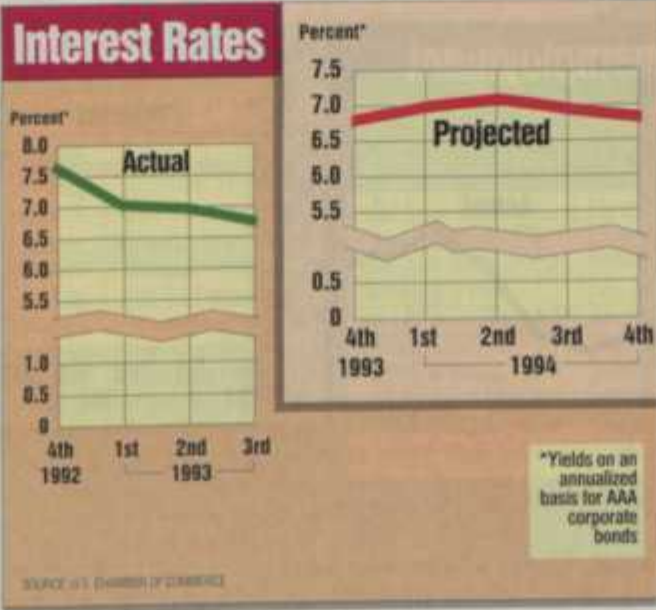


PHOTO: SARAH DOROW

Sales are brisk at the Water Street Grill in Rochester, N.Y., says co-owner Danna Perlo-Gullace. "I don't feel negative."

ing. "I've predicted before," she says, "and I still maintain that the 1990s are going to see a record level of affluence."

An important factor in the ability of companies to keep that competitive edge is access to financing, a source of concern for many small businesses in recent years. James Chessen, chief economist of the American Bankers Association, believes



On the positive side, when credit is available, it should be at interest rates generally close to the favorable levels that have prevailed recently. The U.S. Chamber projects the three-month Treasury bill yield, for example, at 3.1 percent through 1994, up just a notch from 3.0 percent in the final quarter of 1993, while the AAA corporate bond yield—a useful gauge of borrowing costs—will rise from 6.9 percent at the end of 1993 to 7.1 percent in the first half of 1994 and drop to 6.7 percent by the end of the year. *Blue Chip Economic Indicators* sees T-bills at 3.6 percent by year's end.

The prospect that interest



## COVER STORY

rates will remain reasonably stable is among the several positive economic signals surfacing amid the pessimism reflected in many of the macroeconomic forecasts and in the direct experiences of individual enterprises.

The bright-side picture includes the success of individual firms such as Wonderware Software Development Corp., in Orange County, Calif., which has expanded both its plant and payroll as sales of its machine-controlling software have soared. (See the box on Page 23.)

In Rochester, N.Y., hard-hit by downsizings and restructurings at major employers such as Eastman Kodak Co. and Xerox Corp., Donna Perlo-Gullace and Tony Gullace nonetheless saw sales stay brisk for their upscale, 6-year-old Water Street Grill, which serves American cuisine. Business has been so good that the couple plans to open another restaurant specializing in northern Italian food in 1994. Says Donna: "Rochester has gone through a lot of economic changes and always weathered the storm. I don't feel negative. We've found a niche. My whole goal is just to make everyone feel special."

Her business strategy is designed to meet a constant threat: the hair-trigger trendiness of the restaurant business. "People are always looking for something new and different," she says. "It can't be the same experience every time. It's always got to feel a little different—whether it be a new piano player or new pictures on the wall. We change the menu frequently, redecorate a lot. It always has to feel new and fresh."

**W**ithin the range of expectations for 1994 are some mixed views. Ed Alberts of Ralph Alberts Co., a theme-park supplier in Williamsport, Pa., reports that the firm's work force has grown to 38 from 27 last June, and "we are probably going to have the biggest year that we've ever had." At the same time, he notes, profits will be harder to come by because "we're bidding things much closer to the vest."

At Brookside Hardware in the Catskill Mountain village of Margaretville, N.Y., Mike Gould, a veteran salesman, says that "it's picking up slowly." But there is no such qualified optimism just 100 yards away in another store-



PHOTO: GILL HARRIS

**Demographer Cheryl Russell says small-business survival requires "ruthless efficiency."**

carrying electronic and general household items. Diane Amundsen, the owner, says she sees evidence that customers are digging into long-held emergency cash reserves for such items as ranges—not a good sign for hopes of sustained consumer spending.

Nonetheless, there have been other, more encouraging signs in 1993 about the economy's direction. Stock prices rose and set records as investors continued pumping billions of dollars into mutual funds. Merger activity rebounded, particularly in the telecommunications and cable-television industries as the informa-

tion superhighway began taking shape.

Analyst Handler of Dun & Bradstreet says the weak GDP growth is "proportionately correct" in relation to the mild recession of 1991. "We had a mild recession," he says, "so it follows that we're going to have a mild recovery." During that nine-month downturn, according to the U.S. Department of Commerce, the economy shrank only 1.6 percent.

Regalia of the U.S. Chamber says growth of GDP for the first half of 1993 was too low, however; it was well below the 2.3 percent to 2.5 percent that he maintains would be its optimum after 1991's downturn.

"Right now," Regalia says, "the economy is below its long-term potential. We're not doing enough to create any great feeling of security. If you don't generate the security, you don't generate the confidence. And if you don't generate the confidence, people don't buy. So there's no need to gin up your production."

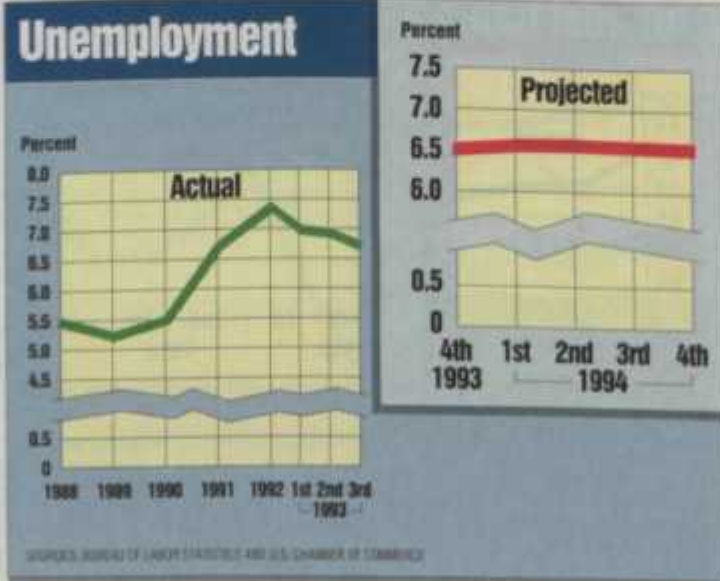
The economy slogged along in the first quarter of 1993 at a barely perceptible growth rate of 0.8 percent and at 1.8 percent in the second quarter. The rate rose to about 2.7 percent in the third quarter, but a significant part of that was attributed to the spending for coping with and recovering from the Midwestern floods.

The biggest problem with the slow recovery, economists say, is that it lowers expectations for specific areas of the economy and makes everything seem worse than it really is. Yet throughout much of 1993, in various parts of the country, the economy showed some positive movement.

Take housing. Starts jumped 61 percent in 1983, the year after the 1981-82 recession, but only 23 percent in 1992, the year after the 1991 recession, even as mortgage rates plummeted to lows not seen since the early 1970s. So the housing market was widely perceived as being awful throughout 1992 and the first half of 1993.

Regalia says: "We've got home prices stabilizing or dropping in many areas. What has been depressing home sales is the confidence factor. People don't make the biggest business decision of their lives when they don't know if their employment stream is going to continue."

Gramley of the Mortgage Bankers Association gives





another reason: demographics. The pool of prime home-buying people ages 25 to 34 swelled in the 1970s and 1980s but reached a peak in 1989 and has since turned down. "So when that population begins to shrink," Gramley says, "that means household-formation rates begin to shrink, too."

Nonetheless, housing did grow—although not spectacularly, to be sure—for most of 1993 until, by fall, single-family-housing sales and starts were running at an annual rate of about 5 million, the highest since 1979. In October, starts alone had crept up to a yearly rate of 1.4 million, their highest level in 14 years.

Even the job-growth numbers are mixed. While the unemployment rate is not expected to show a significant drop in 1994, jobs are still being created at a rate of 120,000 to 150,000 a month despite the more highly publicized layoffs at large corporations.

Small business continues to do most of the job creation. A Dun & Bradstreet telephone survey of 5,000 companies resulted in a forecast that 2.1 million jobs would be created in 1993; 57.6 percent of the companies surveyed had fewer than 20 employees.

Says Stuart Hoffman, chief economist of Pittsburgh's PNC Bank Corp.: "We'll get out to the end of 1994, and there'll be 1.4 million new jobs, although we might not be aware of their being created as the year goes by. A business lays 500 people off, and it's news. But a small business hires two or three people, and you never hear about it."

Those who take a more pessimistic view toward the job scene argue, however, that the bare numbers obscure the fact that many of the layoffs are from relatively well-paid positions while the hiring is for lower-wage jobs. A result, they say, is not necessarily an increase in the consumer purchasing power needed to fuel a strong recovery.

Export markets represent another area of mixed activity. Economic slowdowns in Japan and Europe are curtailing demand for U.S. goods in those regions, but results of the latest talks on the General Agreement on Tariffs and Trade (GATT) could be a boon for U.S. firms.

In addition, the recent approval of the North American Free Trade Agreement offers the prospect of sharply increased exports within the hemisphere, particularly to Mexico. (For additional details on the

agreement, see "NAFTA Opens A New Era," on Page 24.)

In the wake of the bright as well as the dark economic developments that will make 1994 a transition year, the picture brightens. Federal Reserve Chairman Alan Greenspan says that because of productivity gains and the attack on structural problems in large U.S. corporations, the "economy should eventually emerge healthier and more vibrant than in decades." Hiring should increase as demand for goods rises and the costs of overtime outrun costs of adding people to payrolls.

Regalia of the U.S. Chamber is matter-of-fact. To him, there will be opportunity, but not in gushers. He says: "We had a great blast in the 1980s. We're going to have a lengthy period of slow economic growth, but we're in the second half. This is a survivors' economy. If you're around after the show and are able to comment on the mistakes you've made, you've won the game."



For reprints of this article and the accompanying NAFTA story, see Page 78.

## To Win In '94: One Firm's Formula

In 1986, engineer Dennis Morin was laid off from Triconex, a struggling high-tech start-up company, but he did have an idea. He saw a need for a better software product that would help people run machinery with computers, the niche called "man-machine interface," or MMI.

With three partners, space in a back bedroom of his house, and \$180,000 in venture capital, Morin formed Wonderware Software Development Corp., in Irvine, Calif., and developed InTouch. It is a software package that lets the operator remotely control factory machinery by touching little pictures of, for example, valves and pumps and on-off switches on a computer screen.

Wonderware's sales shot from \$322,000 in 1989 to an estimated \$20 million in 1993, with his product going chiefly to major corporations. Among other high-profile uses, Wonderware's software helped control the giant mechanical borers that dug the "chunnel" under the English Channel.

The company has \$35 million in cash in the bank. It has 112 employees, up nearly 20 percent in just a year, and nearly all the workers are white-collar technical and computer professionals whose salaries range from \$25,000 to \$150,000.

In 1993, the company moved into 32,000 square feet of new office space. In July, Wonderware offered stock to the public at

\$14; it is now at about \$22 and is traded on NASDAQ. Says Morin: "The whole thing has been amazingly linear. It has just fallen into place. Click, click, click, click."

Well, it has been a little harder than that. Here are some of Morin's tips for succeeding in a slow-growth economy:

■ **Keep trying.** "The reason that Wonderware was successful was that I kept plugging away. This isn't the first business I've ever tried to do. But this is the first one that prompted anyone to ask what the secret of success was."

■ **Strive for quality in every aspect of the business.** "We have an obsession with quality. It's pervasive. To me, you must make quality a part of your cultural values. And it's not just quality of the product. If you have a lunch for employees, for example, it should be a high-quality lunch with high-quality food. The photographs on your walls, the documents you put together, the stationery, the business cards, how your office looks—all should reflect quality thinking."

■ **Don't worry about competition.** Think about what you are doing, not what the other guy is doing. "You remember that movie 'Cannonball Run'? Well, this Italian driver gets into a race car and rips off the rear-view mirror. That's how I feel about competition."

■ **Don't fret about the economy.** "It's a



PHOTO: T. MICHAEL KESSA

Wonderware's Morin: Keep trying.

self-fulfilling prophecy. The reason people's sales go down, the reason GDP goes down, is because people expect them to go down." In contrast to the advice of most other experts, he says: "My attitude about the recession and GDP and all of that? Quite frankly, I ignore it totally. I do not factor the economic environment into my business plans whatsoever. I don't like sitting around feeling like a victim of external things beyond my control."

■ **Grow thyself.** "Growth is not something that just happens. It's something that is caused. Our growth occurs because we make it happen. If you don't make it happen, it ain't gonna happen."



## INTERNATIONAL TRADE

# NAFTA Opens A New Era

By Albert G. Holzinger

**T**he new year will be especially significant for small businesses seeking new or expanded export opportunities. The North American Free Trade Agreement (NAFTA), effective Jan. 1, will help make U.S. manufacturers and service providers more competitive in one of the fastest-growing export markets—Mexico.

In fact, NAFTA will make North America the world's largest and richest market, with about 370 million people and \$6.5 trillion worth of goods and services annually. The United States and Canada already have a free-trade pact in effect, so the principal benefit of NAFTA to U.S. business owners will be increased trade opportunities in Mexico, which is already the world's second-largest importer of U.S. manufactured goods and third-largest importer of U.S. agricultural products.

Robert Jackson, president of Jackson International, is waiting with greater expectation than most entrepreneurs for NAFTA's effects. His small trading company, in Benton Harbor, Mich., represents several companies in the area that have five to 20 employees and make products subject to tariff abatement Jan. 1. The tariff relief, says Jackson, will allow his clients to cut their prices and, presumably, increase Mexican sales.

Tariff elimination, however, is but one of several benefits of NAFTA that U.S. businesses will see immediately, notes Richard E. Neff, an international attorney and consultant in Los Angeles who is a co-author of two forthcoming books on doing business in Mexico. Other benefits, he says, relate to provisions on government procurement, investment, services trade, intellectual-property protection, rules of origin, customs procedures, shipping, and dispute resolution.

These benefits have been hard-earned by U.S. entrepreneurs, points out William T. Archey, senior vice president for policy and congressional affairs of the U.S. Chamber of Commerce. Throughout 1993, the Chamber conducted extensive lobbying and communications efforts in support of the free-trade pact.

"Congress approved NAFTA only because large numbers of small-business owners worked hard to make it unmistakably clear that the agreement was essential to their future competitiveness," Archey says. "Not many issues in the Chamber's long history have enjoyed as

much grass-roots support as NAFTA."

The trade pact covers 2,000 pages and is complex; determining how it will affect your business may require substantial effort. To get started, says Patricia Raiken of the U.S. Department of Commerce, look for the information to answer three questions:

■ **How soon will tariffs be phased out for your products?**

Mexican tariffs, which average about 250 percent of comparable U.S. duties, will be eliminated in 1994 on more than half of the approximately 9,000 goods traded between the two nations. But some tariffs will remain in place for as long as 15 years.

■ **Do your products qualify for tariff abatement under NAFTA's rules of origin?**

These complex rules guide customs officials in determining whether products have sufficient North American value added to qualify for preferred status under NAFTA. Trading-company executive Jackson says these rules form the heart of the free-trade agreement because they provide small-business people

*The free-trade pact makes North America the world's largest and richest market.*



like his clients a vital pricing advantage in Mexico over competitors from non-NAFTA nations in Asia and Europe.

■ **What resources are available to help you export profitably to Mexico?**

Succeeding in any new market—even if it is a free-trade partner—is not easy, especially for novice exporters. But as the box below demonstrates, the federal government and others are providing many helpful tools for U.S. entrepreneurs.

## How To Get Started

It will take some effort to determine whether NAFTA will help you do business in Mexico. The following resources can get you started on the right track.

**The Office of Mexico in the U.S.** Department of Commerce has assembled a large amount of information and is eager to distribute it. By calling the office's FastFax service, at (202) 482-4464, you'll get directions on how to access hundreds of documents prepared by the Commerce Department and other government agencies. If you need further assistance, such as information about seminars on customs rules scheduled for early 1994, you can speak to an Office of Mexico staff person by dialing (202) 482-0300.

**Business America**, a Commerce Department magazine, devoted its Oct. 18, 1993, issue to the nuts and bolts of doing business under NAFTA. The issue is full of useful information, some of it industry-specific. You can obtain a copy for \$2.50 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, or from any Commerce Department regional office.

**The U.S. Chamber of Commerce** guide to NAFTA remains one of the best analyses of the trade pact. It's available for \$15.95 from International Division/Publications, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.





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# The Disabilities Law: Avoid The Pitfalls

*Small-business owners might be surprised how broadly federal rules are being interpreted. Here is what you should know to avoid costly litigation.*

By Laura M. Litvan

**R**ichard Kubach Jr., the owner of a popular Philadelphia diner, attended a seminar in Washington, D.C., two years ago to learn about the Americans with Disabilities Act. But he grew frustrated when a panel of officials who had crafted the regulations to implement the law couldn't offer specific directions on how he could conform, Kubach recalls.

He decided to gamble: Although the law's public-access provisions were to take effect Jan. 26, 1992, he would defer compliance until enforcement procedures against other businesses provided more guidance on what was required. He lost.

Six months after the rules took effect, he received a letter from a disabilities rights group sent on behalf of a 76-year-old Melrose Diner patron who uses a wheelchair. The letter informed him that the diner's lack of a wheelchair ramp put it in violation of the law.

Kubach declined to make the changes, and his business was named in a lawsuit, which was settled out of court with his agreement to build the ramp. "It makes it very difficult to comply with a law when you don't know how far you have to go," he says in explaining why he delayed.

Nevertheless, that delay made Melrose Diner one of the thousands of businesses that have been hit with charges and litigation since the Americans with Disabilities Act (ADA) took effect. By the end of August, two federal agencies with key oversight of the disabilities act—the U.S. Justice Department and the U.S. Equal Employment Opportunity Commission (EEOC)—had received more than 16,000 complaints of discrimination against the disabled. (See the chart on Page 27.) In addition, 26 federal lawsuits had been filed under the ADA, says the American Bar Association. About three-fourths of the complaints and most of the lawsuits are pending.

Examination of the initial charges filed under the public-access provision of the law offers some telling lessons for businesses postponing compliance. Such firms are making themselves vulnerable to lawsuits, and advocates for the disabled, particularly in larger cities, are aggressively seeking businesses that are not in compliance and are filing federal lawsuits.

Another development worth noting is that the limits of the disabilities act are being tested in ways many small-business



PHOTO: ALAN SECOR/PHOTOGRAPHY CAMP

Melrose Diner owner Richard Kubach Jr. with blueprints for a ramp for the disabled.

managers may not have envisioned. Under the language of the act—and increasingly in the eyes of those who are complaining of violations—application of the law extends well beyond the need for wheelchair ramps or signs in braille. Consider the following lawsuits that are pending in federal courts:

■ On behalf of a construction worker who has the AIDS virus, the EEOC is suing a union welfare fund that excluded HIV-related conditions from its health-insurance coverage. The Mason Tenders District Council Welfare Fund in New York City contends that its health-care plan is not covered by federal law. The suit asks the court to award compensatory and punitive damages to the worker involved and to direct the fund to offer coverage for HIV-related conditions.

■ In Connecticut, a prospective lawyer who had passed the bar exam filed an ADA suit after the state examining committee refused him admission to the bar. The committee held that his depression made him unfit to practice law. The applicant had submitted a psychiatric opinion that he could adequately represent clients. In his lawsuit, the plaintiff is seeking a license to practice.

■ A deaf Cleveland Browns fan has filed a class-action suit against the three major television networks, the National Football League, and every NFL team, alleging that the practice of blacking out home games on local TV stations when tickets are still available violates the law. The man alleges that this policy discriminates against the deaf, for whom radio is not an option. Among other things, the suit seeks \$350 million in compensatory damages.

Christopher Kuebler, the lawyer representing the Cleveland Browns fan, says even he is surprised by how broadly the law might be applied. But he says plaintiffs' attorneys must pursue every available avenue to help their clients. The lawmakers who wrote and passed the law bear any blame for the types of cases arising, he says. "Congress put a very ambiguous statute out there," he adds.

**A**pproved by Congress and signed by President George Bush in 1990, the disabilities act was embraced by advocates of the disabled who had pushed for a bill that would make jobs and public facilities more accessible to people with disabilities. The ADA pro-



## REGULATION

tests not only those who have impairments that limit routine functions but also people who are perceived to have a mental or physical disability.

Jurisdiction over the law is divided. The Justice Department enforces a requirement that owners of public facilities make "readily achievable" changes that ensure access for the disabled. The EEOC oversees a portion of the law that bans discriminatory employment practices and requires companies to make "reasonable accommodations" for disabled workers unless changes pose "an undue burden" on the business.

Firing or refusing to hire a person because of a disability is prohibited unless the impairment prevents that individual from performing the basic functions of the job.

The law's employment provisions went into effect July 26, 1992, for companies with 25 or more workers. Companies with 15 or more workers will have to comply by July 26, 1994.

The Justice Department and the EEOC follow similar procedures in determining whether a complaint has merit. If the case does have merit, either agency tries to mediate the dispute, telling the employer it thinks the employee has cause and urging the company to make the necessary changes. If that effort fails, the agency can sue.

An individual can also bring suit in a federal court. If employment discrimination is alleged, a plaintiff who has the EEOC's approval may go to court and seek compensatory and punitive damages, a court order that accommodations be made, job reinstatement if he or she was fired, and back pay.

If the charge alleges public-access violations, a plaintiff can seek a court order that a business make necessary changes—adding a wheelchair ramp, for example. If the Justice Department decides to join the case, the plaintiff can also seek compensatory damages and civil fines of \$50,000 and \$100,000 for each subsequent violation.

Lawyers who represent companies against ADA charges say vague language in the law, particularly in its broad definition of disability, is exposing too many companies to the risk of lawsuits. They point to a recent EEOC breakdown of its caseload, saying the public's view of the law's protections is expanding beyond what Congress intended. That breakdown

indicates that cases stemming from such disabilities as sight or hearing impairments are being outstripped by cases involving back injuries and mental illnesses. (See the chart below.)

"The law is for people who are blind or in wheelchairs," says Edward Levin, a partner with the Washington, D.C., firm of Schmeltzer, Aptaker and Shepard.

## Types Of Job-Bias Complaints Under ADA

(PERCENTAGE OF ALL COMPLAINTS)



\*Includes mobility impairments

SOURCE: U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

CHART BY MICHAEL ROOK

"That's how Congress bought into this law. But what you're doing is going from protecting a small group of people... to protecting 45 million or 50 million Americans. Everyone gets a cause of action because there's something wrong with all of us."

But Chai Feldblum, a leading proponent for the disabilities act when the law made its way through Congress, says lawmakers felt the ADA needed room for interpretation. The effects of stereotypes about the disabled, she says, touch a wide and very diverse sector of the population.

"In order to be a useful law, it had to go broader than what is traditionally considered a disability," says Feldblum, who is now a law professor at Georgetown University Law Center, in Washington, D.C.

Some plaintiffs' attorneys, however, say they are surprised by trends they've observed. Gary Phelan, a lawyer in New Haven, Conn., says a growing number of his potential clients are workers with job-related injuries who, in addition to

filing workers' compensation claims, want to find out what other protections may be available. In particular, he says, he has been approached by several people who say they have carpal tunnel syndrome—wrist injuries spawned by repetitive motion—and want to see if they're covered by the disabilities act.

"I think the scope of what is considered something that would be covered by the ADA is expanding," says Phelan, who works with the law firm of Garrison and Arterton.

So far, only one charge among the 16,000 filed with the Justice Department and the EEOC has made its way through a jury trial. In March, a federal jury in Chicago awarded \$572,000 to an executive discharged by a security firm after he was diagnosed with terminal brain cancer. The jury's award, which included \$250,000 each in punitive damages against the company and its owner, far exceeded the law's \$300,000 cap. A U.S. District Court judge later reduced the award to \$222,000.

The size of the jury's award attracted attention, but a more widespread concern for companies is the prospect of paying lawyers to defend them against frivolous job-bias charges, lawyers say. Ron Taylor, a Baltimore lawyer, says an employee of a Maryland company he represented filed a charge with the EEOC, claiming that the firm refused to accommodate her sleep disorder because she was asked to work a longer shift. After some probing, he says, he found out that she was really moonlighting at two other jobs.

"You will always have someone who will drum up something they say is a handicap," says Taylor, who is with the firm of Venable, Baetjer and Howard.

Of the 14,330 charges filed with the EEOC by the end of August, 1,000 were determined to have no cause and were thrown out, an agency spokeswoman says. Jean Kamp, a supervisory trial attorney with the EEOC's Chicago regional office, says only 5 percent of the 900 cases her office has opened met the merit test—that the filer had a disability covered by the law and evidence that he or she was discriminated against. "There are a lot of borderline cases, to be sure," Kamp says.

While the courts have yet to answer many questions about the new law, consultants warn that managers in all industries need to keep up with developments related to the law and comply if they haven't already. Consultants say many companies have policies in place that probably wouldn't hold up to scrutiny under the law. One such stumbling block, lawyers say, lies in strategies to reduce workers' compensation costs.

Employers often want to know if a job applicant has a history of filing claims.



Under the ADA, however, an employer can't ask about previous claims until a conditional job offer is made. And the question can only be asked to determine whether a prior injury may prevent the applicant from carrying out the job.

Many companies incorrectly believe they can get around this rule, says Robert Duston, a partner in the Schmeltzer, Aptaker and Shepard law firm. For example, many manufacturing companies hire outside investigators to compile an applicant's claims history. But this still violates the ADA, Duston says. "You can't ask indirectly what you can't ask directly," he says.

Duston notes that the law lists only three circumstances under which an employer can rescind a job offer in connection with past workers' compensation claims: The injury that was the basis for the claim would keep the applicant from performing basic duties of the job offered; the injury would affect performance to the point of posing a threat to others; or there is proof that past workers' comp claims were fraudulent.

Others warn that the biggest pitfall for many smaller firms is their failure to make basic physical changes to accommodate the disabled at a time when advocacy groups for the disabled are hunting for violations and a growing number of lawyers are specializing in ADA lawsuits.

"Businesses are totally aware of the law," says Stephen Gold, a Philadelphia lawyer who has represented several wheelchair users in ADA cases. "They're just not doing anything about it until they get sued. I could walk with you for five blocks from my office and file 100 cases."

Nancy Fuleo, a labor and human-resources lawyer for the U.S. Chamber of Commerce, says that while many employers are "playing catch-me-if-you-can," others are having a tough time understanding how to comply.

(For more information, and a list of resources, see the April 1993 cover story in *Nation's Business*. A package of *Nation's Business* article reprints on ADA issues, No. 8954, is available for \$9.95. Call 1-800-692-4000.)

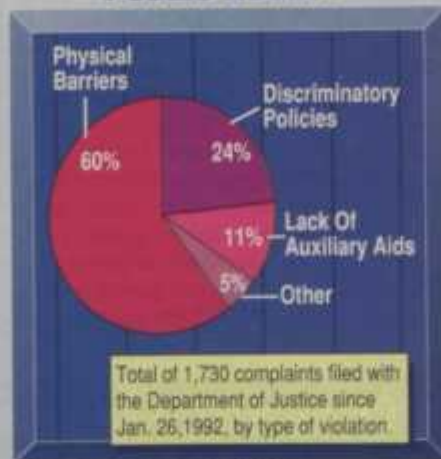
And others say that many companies look at the fiscal realities of changes they would have to make and just decide to hold off. "They're willing to do what they have to do, but when you translate it into costs, it's a problem," says Freedley Hunsicker, a partner in the Philadelphia law firm of Drinker, Biddle and Reath; he has defended employers against ADA complaints.

Kubach, who owns the Melrose Diner, says such concerns were on his mind when he decided to take a wait-and-see approach. Now, as he prepares to put in his new ramp, his cost estimates are ranging

## The Breakdown On ADA Complaints

By Aug. 31, 1993, the agencies with chief oversight of the Americans with Disabilities Act—the Department of Justice and the Equal Employment Opportunity Commission—had received altogether more than 16,000 complaints. All were allegations of inadequate public access or job bias. Here is how complainants felt they had been victims of discrimination:

### PUBLIC ACCESS



SOURCE: U.S. DEPARTMENT OF JUSTICE

### JOB BIAS




SOURCE: U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

from \$25,000 to \$50,000 because he wants it to match the stainless steel and porcelain work on his building's exterior.

"When you start looking at one thing, it affects so many other things," Kubach

says. But under the Americans with Disabilities Act, he has no choice. **NE**

 To order reprints of this article, see Page 78.

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## LEGISLATION

# More Sales Taxes On Services?

By Laura M. Litvan

**W**hen Florida lawmakers voted in 1986 to apply the state's 6 percent sales tax to a broad range of services, the owner of a small Jacksonville advertising agency let out a cry of protest that still rings in the ears of politicians in many states.

With funding from ad-agency and television-station managers, Les Loggins directed his four employees to develop some seething anti-tax commercials. Aired statewide for months in 1987, the ads attacked then-Gov. Bob Martinez, a Republican, for having supported the new tax on services ranging from accounting to pet grooming. Like most other states, Florida had previously applied its sales tax primarily to goods.

"We just blasted the heck" out of Martinez, says Loggins, president of Les Loggins Advertising and Public Relations Inc.

With his approval rating sliding, the governor called for repeal of the tax, and the state legislature concurred in December 1987—six months after the tax had gone into effect and generated \$495 million.

In the wake of Florida's political pratfall, as well as a similar repeal in Massachusetts in 1991, other revenue-hungry states are moving more slowly.

"Whenever the subject comes up, people point to what happened in Florida and Massachusetts," says Ron Snell, fiscal-program director for the National Conference of State Legislatures, in Washington, D.C. "The two events have had the effect of discouraging states from looking at this on a broad basis."

But services presently exempt from sales taxes will not necessarily remain so. "In general, states are inching their way, in a very incremental fashion, toward taxing services industries," says Michael Mazzerov, director of policy research for the Multistate Tax Commission, in Washington, D.C.

In a 1992 study, the Washington-based Federation of Tax Administrators found that almost all states have begun taxing

some kind of service, but only six have gone full-throttle, taxing 100 or more types of services.

Widely enacted by states beginning in the 1930s, when manufacturing dominated the economy, sales taxes have historically been applied to goods. Over the past several decades, however, the economy has become more service-oriented. According to the U.S. Department of Commerce, in 1952, for example, serv-

*Though Florida and Massachusetts backed away from such levies, other states are gradually tapping into this area of business growth.*

tax on his services, then pay another sales tax when the ads he created were aired on television stations.

States have also worried about their ability to attract and retain services businesses if they impose taxes on services and nearby states don't. In addition, some opponents have argued that a sales tax on services can dampen a state's economy because larger businesses are given an incentive to begin performing functions such as legal and accounting services in-house.

Businesses have been most vocal about their concerns over transactions that cross state boundaries, which can create confusion about when the tax applies and can generate a lot of paperwork. In Washington state, cross-boundary worries became a key reason for lawmakers' rejection last year of Democratic Gov. Michael Lowry's proposal to expand the sales tax to financial, legal, and other services. Industries that would have

been affected raised so many concerns that lawmakers ultimately extended the tax to only a handful of services, such as health clubs and landscaping.

**F**or many states, the difficulties with the tax on services has been frustrating as lawmakers struggle to find new revenues. Unless the economy improves significantly, even the biggest opponents of sales-tax expansions predict they will eventually lose. In Massachusetts, where Republican Gov. William Weld persuaded lawmakers to repeal a broad sales tax on services before it went into effect in 1991, business people figure it's just a matter of time before the tax is proposed again.

Says Jack Delaney, a partner in the Boston law firm of Hale and Dorr who lobbied against the sales tax on services: "I think it is a very serious threat in the future. ... Policy-makers see services industries as a source of revenue that can be tapped."

## How States Compare On Services Taxed



ices accounted for 43 percent of the nation's gross domestic product, while goods made up 45 percent and construction 12 percent. Forty years later, the services sector had grown to 51 percent of GDP, while goods had shrunk to 40 percent and construction to 9 percent.

This shift has given states incentive to expand sales taxes on firms providing services, economists say. A few states—New Mexico, Hawaii, and South Dakota—approved broad-based sales taxes on services decades ago. Because those states' economies are more self-contained than most, the sales tax on services has been easier to implement than in states like Florida and Massachusetts, where there is more interstate trade.

But in many states that have considered imposing taxes on services in recent years, numerous concerns have emerged. First, there have been worries about "pyramiding," when consumers pay a sales tax several times over. For example, Les Loggins' customers had to pay a sales



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## MANAGING

# Now You Hire Them, Now You Don't

By Michael Barrier

In an industrial park east of Pueblo, Colo., just off U.S. Highway 50, you can get a sense of how the American work force is evolving—and of the importance of temporary workers in it.

One company with a plant in that industrial park is Kurt Manufacturing Co., a Minneapolis-based firm with facilities in Minnesota, Nebraska, and Colorado. Kurt's Pueblo plant, open since 1988, is a precision machine shop that makes parts for personal-computer disk drives and other high-tech products. Employment at the plant was about 35 in the fall, but it has been as high as 140.

Kurt has worked as a supplier for one large computer firm for "many, many years," says Richard Miller, its manufacturing manager. "Now they call us in at the design stage." But even with such long-term partnerships, the computer industry is so volatile that Kurt's customers can make heavy demands on the plant with little notice. "When jobs really get going," Miller says, "we hire a lot of temporary people."

Relying on temporary employees can be tricky for a manufacturer like Kurt,

*Temporary employees are becoming an increasingly important component of an evolving American work force.*

which has fully embraced the principles of Total Quality Management.

Machine-tool operators at the company use computers to monitor their work. "It used to be that every good precision shop had a very large final inspection area," Miller says. "Now we control the process from step to step. If we make a bad part, the operator knows it very quickly and doesn't send it through six more operations."

Since the mid-1980s, everyone who works at Kurt full time has been required





to take a 30-hour course in statistical process control (SPC), a basic tool of quality management.

TQM involves more than statistics, though. It involves teamwork, employee initiative, and responding quickly to customer needs, which might seem hard to reconcile with temporary employment.

Kurt has in fact been trying—with increasing success—to fit the two together. Even temporary workers take "crash courses" in SPC, Miller says. "It's a scramble when we get them in here."

In the beginning, he says, Kurt was dismayed to find that among many of its temporary workers, "there wasn't a loyalty. If they showed up, fine; if they didn't, that was fine, too."

But, says P.J. Vollmer, the plant's quality manager, "we worked hand in hand" with a local temporary-help company to get the right kind of temps assigned to the plant, and the situation improved "as we got more experienced on how to work with the temp people."

As much as possible, Kurt tried to plan ahead, so that it could use a group of temps for at least six months at a time. "They were just like regular employees—doing the same job every day, just like everybody else," Vollmer says. And whenever possible, Miller says, Kurt asks to get certain workers back.

Hiring a "flex force" of temporary employees "is good for the company and good for the people on the flex force," he says. "You don't get the name of a company that's hiring and then laying off. At the same time, if we need the extra people, we know, from working with the temp-force company, that we have the trained people available to us."

Most of Kurt's temps are interested in full-time work, Miller says, and temporary employment serves as a screening process. As Vollmer says, "Not only are we seeing what kind of people we can hire from, but they're finding out if they really want to work for this company."

**K**urt's experience is not unique. Across the country, companies of all kinds have been trying to accommodate the demands of a world economy that is highly volatile and yet insistent on strict standards of quality.

In this environment, the full-time payrolls of large corporations have shrunk, and temporary employment has mushroomed. From 1991 to 1993, the number of people working as temporary employees in the U.S. on any given day grew by 350,000—from approximately 1.15 million to almost 1.5 million, according to the National Association of Temporary Services (NATS), a trade association based in Alexandria, Va.

Even though temporary employment still accounts for only a small percentage of the nation's work force, its rapid

growth has provoked doomsaying from commentators who see in it the severing of a precious bond between employer and employee. Others, like author Tom Peters, scoff at this notion, pointing out that at the beginning of this century, half of all Americans were self-employed. What is happening, they say, is simply the return to an earlier pattern.

The rise in temporary employment can thus be interpreted as a harbinger of an economy with a more entrepreneurial character, in which millions of workers carry their highly portable skills with them from job to job. As the economy changes, says Samuel R. Sacco, NATS' executive vice president, "we're helping people make the transition."

The demand for skilled temporaries has already forced the temporary-help companies to invest more in training their workers; in a 1989 NATS survey, two-thirds of the people who worked as temps said that they had gained new skills as a result, and the figure has almost certainly risen since then.

That training makes temporary employees more attractive as permanent employees. As Kurt Manufacturing's experience suggests, temporary employment is becoming a way for both employer and employee to test each other before a permanent job is offered. "Our industry is based on the idea of moving people through," says Bruce Steinberg, NATS' media relations manager.

Typically, a temporary-help contract provides that a temp will work for an employer for a set period—long enough for the temporary-help company to recover any investment in training. If the employer wants to hire the temp permanently before that period is up, it pays "liquidated damages" to the temporary-

help company. Until the past few years, temporary-help companies tried much harder not to lose their workers, Steinberg says, but "you can't swim against the tide." The temporary-help companies "are going to accommodate the customer," he says, and increasingly that means that "the selling of temporary help has evolved into human-resource consulting."

**S**uch customer-specific services are the sort of thing that niche companies have always been good at providing, and temporary employment is no exception. In the temporary-employment field, the most striking recent success stories are those of niche companies.

For example, On Assignment, a temporary-help firm in Canoga Park, Calif., grew from \$7.4 million in revenues in 1988 to \$32.7 million in 1992; it now fields more than 1,200 scientific professionals, whose average assignment to customers' laboratories is for 3½ months. On Assignment's typical employee is someone with a bachelor's degree in the sciences and less than five years' experience.

On Assignment thrives on the fact that some jobs are temporary by nature. "We work with a food company that does cheese analysis," says H. Tom Buelter, On Assignment's chairman and CEO. "Our people change every four months—not because the job changes, but because after four months, if that person never sees another piece of cheese in front of him, it'll be too soon."

Today, Buelter says, American companies are staffing "for the valleys, and they use a contingent work force to staff for the peaks." With temps available, a company can consider taking on a project that may

## How To Hire Temporary Help

Think about the kind of temporary-help company you need. Is a specialized niche company most likely to have someone available for the work you have in mind? Or does the work require skills that are in plentiful supply?

If the latter is the case, you may want to look to a large, established company. In any event, you should ask several companies to outline what they can do for you.

Ask each temporary-help company the right questions, such as these: Do you have insurance? Do you check on the progress of your temporaries? How do you recruit your temps? How much training do you give them? What benefits do you offer your temps? What kinds of guarantees does the company offer in case a temporary employee it provides doesn't

work out? And don't forget to ask for references.

When you've settled on a temporary-help company, use it as a consultant. Let it know from the beginning if you're interested in having someone try out for a permanent job. That way, they will only send you people who are interested in such a position.

When you are trying out a temporary worker for permanent employment, evaluate not just the person but also the position itself.

You may hire a full-time temp, for example, and learn that there is only enough work for a part-timer; or vice versa. Or you may learn that the job's responsibilities should be different from what you had planned.



## MANAGING

last only a few months—too short a time to justify going through the expensive and time-consuming process of hiring permanent employees.

As NATS' Steinberg says, "The economies of using temporaries come because you're not recruiting; you're not handling the massive interviewing process and filtering out all the people who shouldn't be there in the first place."

Annually, Buelter says, 20 percent of On Assignment's temps move on to permanent jobs. That figure is significantly lower than the average of about one-third for all temporary employees, even though more than 90 percent of On Assignment's temps serve out the full term of their assignments.

That suggests, for one thing, that a sizable number of On Assignment's professionals are in no hurry to move to a permanent job, but it also suggests that their temporary employers are building the use of temps into the structure of their companies. "In a company that understands the benefits of using temporary help," Steinberg says, "the amount of temp-to-perm activity is far less than the amount of temporary activity."

As the demand for temporary workers—and highly skilled workers in particular—grows, remaining a temporary worker is becoming a more attractive



ILLUSTRATION: ARY L. WASSERMAN

**Temporary workers** carry their highly portable skills from job to job.

option for the workers themselves. By making health insurance available (at the employee's expense), for example, companies such as On Assignment are not only attracting high-quality temporaries but are also making it easier for them to continue working as temps.

Even the idea that temporary workers are paid only when they work is eroding. "Because there is such a shortage of nurses," Steinberg says, a temporary-help company might pay a nurse for an idle week between assignments.

**B**uelter foresees a two-tiered system, one tier made up of relatively small, high-margin companies like On Assignment, offering specialized services, and the other consisting of the much larger companies that provide clerical and light-industrial temps.

It seems equally conceivable, though, that temporary employment of all kinds will take on a more professional cast, with temporary workers motivated not so much by loyalty to a particular employer as by loyalty to themselves—and by the close connection between their work and the pay they receive for it. Workers of that kind can fit very easily into a quality-oriented company like Kurt Manufacturing.

In a large organization, after all, "loyalty" can be a sort of camouflage for the lazy and the incompetent. "Our people do real work," Tom Buelter says, "and that's what's needed in America today—not middle management, not supervisors. Before you hire a temp, you know exactly what they need to do."

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## SMALL-BUSINESS COMPUTING

# In Touch Through Technology

By Ripley Hotch

*As innovations in equipment take hold, business people are communicating and cooperating in revolutionary ways.*

**M**any of the emerging technologies likely to prove useful to small businesses in the years ahead fall into four categories: communication, connection, cooperation, and convenience.

Businesses have long sought to improve the ways their employees work together, gain access to information, and operate outside the office. They've also been interested in making it easier to learn about computers and office equipment in general. Now, advances in technology are resulting in the creation of business structures that couldn't have existed before, at least not in efficient form.

In Durham, N.C., Team Radiology has created a whole new way for rural hospitals to offer radiology services that were previously not financially feasible. By far the most dramatic of these is analysis of medical scans delivered over telephone lines from anywhere in the country 24 hours a day. The company also provides backup for hospitals' in-house radiologists, locates and recruits staff radiologists through a subsidiary search firm, and handles patient billing.

According to Susan Hinson, the company's executive vice president and chief operating officer, Team Radiology uses new technologies to relieve hospitals of the substantial burdens associated with administering radiology. She says this kind of "telemedicine" is growing and allowing hospitals to offer patients more, better, and cheaper services. "Hillary Clinton has said that for every dollar spent for health-care delivery, four are spent for administration," Hinson says. "If we can save the hospital one of those dollars, that's good; if we can improve quality of delivery, then we help everyone."

Skip Saltee, Team Radiology's chief executive officer, says rapid advances in equipment and software technology are making telemedicine and similar services in other lines of business possible. "The equipment was first developed in the



PHOTO: CIGARETTE HALL

Using "telemedicine" to relieve hospitals of the costly administrative burdens associated with radiology are Skip Saltee and Susan Hinson of Team Radiology in Durham, N.C.

early '80s as a spinoff of spy-satellite technology," he says. "The initial systems were very expensive. We started looking at them in 1987. By 1990, compression technology allowed the sending of accurate images, and laser technology allowed the scanning of images to be more accurate."

And, of course, the costs have dropped as rapidly as they have for most other microprocessor-based equipment.

The concept of connecting with colleagues over a network wherever they are is new but rapidly growing. Such new forms of communication and cooperation go under various names, from "virtual networking," "ad hoc networking," and "telecommuting" to "spider-web organizations" and "virtual employees." It's a brave new world of business organization that favors nimble, open-minded, nonbureaucratic companies—in other words, small businesses.

At the moment, these communication technologies are still being defined, but it is clear that they are going to be signifi-

cant to employees and companies alike.

Apple Computer Inc., for example, has been providing connections through its PowerBook line of notebook computers and networks. George Everhart, vice president and general manager of the Personal Computer Business Division of Apple, based in Cupertino, Calif., likes to talk about ad hoc networks and what they will mean for small businesses. He conceives of these as ways for small businesses to connect with larger ones. A small-business person who has a notebook PC equipped with a wireless modem, he says, "could come into any meeting, take part in the exchange of information—pictures, voice, text, whatever—and when they left, take with them whatever was shared." Most of the shared information would come from, and be coordinated by, the larger company's computer network, which the small-business person would, in effect, log into as if he or she had a PC provided by the larger company.

The office network is becoming essential, even for the smallest companies. For



example, telecommuters working at home or on sales calls halfway around the world are finding that they need to be able to tap into their company's network of information from wherever they are and to interact with their colleagues as if they were in the office.

Ideally, networks can go wireless, and plenty of companies with traditional hard-wired networks are trying to do that or at least provide the means for consultants or service firms to do it for them. Right now, this entails a lot of work, requires patience, and is somewhat clumsy in the absence of industry-wide standards. But in a year or so, as standards and products such as wireless modems and related software advance, easier connections are going to make wireless technology a "must have" for many business users.

Shiva Corp., of Burlington, Mass., is a pioneer in "remote networking," provid-



PHOTO: ALEX MCDONALD-BLACK STAR

**Innovations in technology are breaking down "application walls," Microsoft's Susan Weeber says.**

ing cutting-edge hardware and software that allows users to tap into corporate networks from anywhere. Remote-control software has been written by many companies, but most of the programs essentially allow users to "take over" existing computers, or "nodes," on networks. In contrast, Shiva's software allows a remote machine to become a node on the network, which leaves office PCs on the network available for use by others.

"Once you get a few PCs in an office—fewer than 20 people—then networks make sense," so users can easily share information, says Dan Schwinn, Shiva's chairman. Users of Shiva in small operations include ad agencies ("really an array of subcontractors tied together electronically," Schwinn says), law firms, doctors' offices, universities, magazines, and transportation companies.

Says Skip Reardon, senior marketing manager of Solomon Software, a publisher of accounting programs in Findlay, Ohio: "I think you're going to see a real explosion of the 'virtual corporation,' whether through downsizing, rethinking business processes, using independent contractors, or some other external source." A virtual corporation is a collection of entrepreneurs or companies that come together for a particular project; once the project is completed, the participants go their separate ways, often to compete with one another.

The ability to connect through computer networks and access networked information conveniently is changing the role of software publishers like Solomon. In "client-server" computing, most of the data and programs reside on the network file servers, and the "clients"—individual PCs or workstations—demand service in the way of data or programs as they need them. The client-server computing model has been increasing in popularity for some time, but now there is software that makes it truly practical for small firms.

Solomon has long been a provider of high-end accounting software, but now it is aiming for the broader middle market as well. Its newest products take advantage of the popular Microsoft Windows graphical user interface and a common "structured query language" that networks use to access information from a shared database.

Instead of calling it accounting software, "we now call it an accounting information system, because people outside the accounting department can use it in a productive way," Reardon says. "It becomes the most mission-critical application a company can have."

Making information available within an organization through networking is one thing; making software work cooperatively in accessing and manipulating that information is another.

In the latter area, major software vendors are offering what they are calling software "suites," major business applications sold at a significant discount that work together. Microsoft, a leader in this movement, has introduced what it calls "Intellisense" in the new Version 4.0 of its Office suite of applications: the Word word processor, the Excel spreadsheet, the Powerpoint presentation-graphics

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program, the Mail electronic-mail program, and the Access database.

Applications now marketed by the company, based in Redmond, Wash., try to sense what a user wants to do and then help the task along. Word, for example, automatically corrects common typing errors. Formatting can be automatic, instead of requiring the user to apply codes to a document (one of the most confusing and least-used aspects of the new Windows-based word processors). In addition, Microsoft has adapted its Wizard technology from other programs such as Publisher. The "Wizards" (some other software companies refer to them as "Experts") prompt you by asking what you want done and then perform the steps necessary to accomplish the task.

"We want to make the computer easier to use every day," says Susan Weeber, Microsoft's Word product manager. "We're making the computer do more of the work, so you can concentrate on what you want to do." One of the major advances of this cooperation is that instead of creating a document within the word processor, then exiting to work on a spreadsheet, then importing the figures into the document, you can simply create the document in one step.

In suites of applications, "many features are similar from one product to another—like the menus and buttons," Weeber says. More important, when you create a document, you can shift from one application to another with the simple press of a button. "The application comes to your document, instead of the other way around," Weeber says. "We call it the breaking down of application walls."

Another software publisher, WordPerfect Corp., based in Orem, Utah, has simply added tools to the word-processing

program itself: drawing, database, and spreadsheet, for example. It makes for an enormous program, but with the prices of powerful computers and large disk drives continuing to drop, high minimum performance requirements and large program sizes seem less daunting.

**O**ther big changes in how we store and retrieve information are coming. On-line business databases have become essential for large corporations, but smaller companies have been unwilling to commit to their use because of complexity and expense. That is expected to change soon, says Pat Tierney, chief executive officer of Dialog, in Palo Alto, Calif., which offers more than 500 databases used by more than 5,000 business customers.

"As hardware costs come down and software becomes more powerful, it has become easier to construct interface and search software that makes the service easier to use," Tierney says. "We have several prototype services in development aimed at small businesses." The first will be available next year, he says, and it will be designed to help people do complicated searches.

"One of the problems has been that services like ours have had to stand on their own, so they often require a dedicated modem and set of equipment," Tierney says. "It will get more integrated.

Word-processing programs or spreadsheets will be able to communicate with external sources of information so that people don't have to think about the services as being something separate and distinct and remote, but much more an integral part of applications."

But the ideal is even better, Tierney says. "The way people would like to work is to produce a report and at some point say, 'I need some information.' They won't care whether the information is on a CD-ROM disk, a company file server, or thousands of miles away in some central repository. They'll simply import it and go on."

As companies like Dialog simplify search procedures and bring costs down (perhaps as an enticement), smaller busi-

nesses, perhaps by the end of the decade, will start making more use of these databases, which should bring the costs down further. Midsize companies will move first, but in a couple of years genuinely small companies will likely be taking advantage of this technology.

This change in the way offices operate will be as significant as the automatic starter was for automobiles. No longer will we have to spend our time opening hoods, changing tires, or wondering if one program or information source will work with our network.

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**"They won't care whether the information is on a CD-ROM disk, a company file server, or thousands of miles away in some central repository."**

—Pat Tierney, CEO, Dialog

## How Technology Can Help A Company

Lens Express, a Fort Lauderdale, Fla., company with 250 employees, specializes in filling contact lens prescriptions and says it is doubling its revenue every year, principally through its use of technology.

Last year, the company wanted to expand its telemarketing operations, but it kept losing employees. "The compensation structure meant they made very little money," says Brian O'Neill, president of Lens Express.

To help its phone solicitors reach prospects quickly and earn more, the company bought predictive dialer software. "It dials through the customer database very rapidly and detects those that don't answer, disconnected numbers, busy signals, and even answering machines, and delivers to the sales agent a live person,"

O'Neill says. The results have been excellent. "We've got the department up to 25 people with low turnover."

With 25,000 items in stock, the company could waste a lot of time and money just filling orders. Instead, orders are taken on screen and delivered electronically to the stock room. An order is processed with a single slip of paper printed there; the paper has a tear-off label for shipping. The rest is kept for billing and records.

The cost is not great. The charge for software varies according to the company's size. Phone calls run a penny each. Most companies, however, will want to hire a consultant to get started.

Lens Express plans to extend its network beyond the walls of the office. "The

next thing we'll look at is having sales agents work at home," O'Neill says. Not too far in the future, an employee will be able to be anywhere, with the dialing software routing calls automatically to the next available phone solicitor, wherever he or she is.

O'Neill believes in technology and what it can do for a small or midsize company. "You don't need a huge office center or facility with lots of parking." He plans to push into new areas whenever the opportunity arises. "Between the 800 numbers and the technology that uses the phone system, and the computer systems that go along with it, we adopt whatever is applicable to our business."

"For these types of things, any size company can do it."



## SMALL-BUSINESS COMPUTING

# New Standards Of Performance

*The latest technology is easier to use, more powerful, and more sophisticated than ever.*

By Albert G. Holzinger



PHOTO: KYLE WOODWARD-BLACK STAR

**T**he computer hardware and software you'll find in your local stores in 1994 will not only be more powerful and sophisticated than ever, they will also be easier to use.

Those were the conclusions we drew at the recent Comdex technology conference and exposition in Las Vegas. A surprisingly large number of evolutionary and a few revolutionary changes in the technological offerings were unveiled by the more than 2,000 exhibitors.

Several advances in technology were particularly exciting:

■ The performance of almost all of today's lightning-fast PC processors has been hampered by limitations in the way data can be transferred to and from key components such as hard-disk drives and monitors. Intel Corp. has developed a much faster system, the PCI local bus, and at Comdex it was evident that every mainstream computer maker has or will accept this new technology.

Devices built to PCI standards will be self-configuring—an exciting development for business users. You plug them in, and they sense what else is in your PC and work with it.

■ New processors are faster than ever, and prices are not increasing in proportion to gains in speed. Intel's Pentium processor offers substantially improved performance over the 80486, and PCs optimized to take full advantage of the extra horsepower are now shipping at prices as low as about \$3,000.

Unveiled at Comdex were IBM Corp. and Apple Computer Inc.'s PowerPCs, which use Motorola Inc.'s RISC micro-

**More than 2,000 exhibitors displayed the latest technology at the Comdex conference in Las Vegas. Among the highlights were advances in processors, portables, and software.**

processor. When these PCs reach stores later this year, they should outperform Pentium-based computers but sell for comparable prices.

PowerPC vendors promise compatibility with applications written for Microsoft Corp.'s DOS and Windows operating environments as well as Apple's System 7. These applications, however, will have to be recompiled to take full advantage of the processor's power.

■ Portable computers—notebooks, subnotebooks, and the newer personal digital assistants (PDAs)—continue to gain power and shed weight. They are also becoming more functional. There were so many stunning new portable products on display that it would be unfair to praise only a few here, but one device should be mentioned: Simon by BellSouth Cellular Corp. This 1-pound device, engineered by IBM, offers the communications capabilities of cellular telephones, wireless fax machines, and pagers.

Moreover, Simon, which measures 8 by 2.5 by 1.5 inches, sports many of the features of the better organizers: calendars, appointment schedulers, address books, calculators, and a note pad on which you can write outgoing faxes in "electronic ink." Simon will be available nationwide in the spring at a suggested list price of \$899.

■ Multimedia continues to be a hotbed of interest among product developers and buyers alike. CD-ROM drives, sound and

video boards, and speakers continue to be faster, better, and cheaper—not to mention annoyingly louder. Basic multimedia devices—CD-ROM drives, for example—will soon leave the peripheral-device category and be bundled into every new personal computer. If you need to do high-end presentations with motion pictures, for instance, multimedia is for you now. Most business users, however, may be able to defer investments in this area until next year or even beyond, when performance will be still better and prices even lower.

■ Software is getting easier to use even while it is getting more powerful. Clear evidence of this at Comdex could be seen in the stunning "suites" of business soft-demonstrated by Microsoft, WordPerfect Corp., and Lotus Development.

Another example of a robust yet easy-to-use application for small businesses is Works 2.0 for Windows, which is produced by WordPerfect. When it becomes available for purchase in the spring, this tightly integrated package will contain a word processor, database, spreadsheet, draw and paint modules, and communications capabilities.

Our preview of the \$149 (list price) package led us to believe that the components will be easy to learn to use while still containing features found on high-end packages. This package and an accounting program may be all the software some small businesses need.





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## TAXATION

# Tax Changes That Are Welcome

By Joan C. Szabo

**H**ampered by capital shortages and declining property values, the real-estate industry views some provisions of the recently enacted tax law as a means of enhancing its financial prospects in 1994.

Although low interest rates have helped revive the industry, it still has a way to go before recovering completely, according to analysts. Nonetheless, many experts say, the tax law signed by President Clinton last August should benefit several of the industry's sectors, such as residential construction.

For example, Pittsburgh home builder J. Roger Glunt says that the new law "permanently reauthorizes the low-income-housing tax credit, which will stimulate the construction of affordable rental apartments. It also permanently reauthorizes the tax-exempt mortgage revenue bond program, which provides below-market-rate mortgages for young families buying their first homes."

The two programs will be extremely helpful to small builders, stimulating construction of about 100,000 low-income housing units each year and thereby creating 175,000 jobs in the construction and construction-related sectors of the economy, says Glunt. The employment forecast is from the National Association of Home Builders, which Glunt serves as president. Based in Washington, D.C., the trade association represents 165,000 member companies in residential and light commercial construction.

The tax credit Glunt cites is available to taxpayers who construct or substantially rehabilitate low-income housing that qualifies under a complex formula.

The mortgage revenue bond program, according to home builder Glunt, will be particularly helpful to construction firms such as his. "The program gives our clients access to some very attractive interest rates," he says.

Under the program, state housing-finance agencies can offer tax-exempt revenue bonds to investors; proceeds from the sale of the bonds are used to provide loans at below-market interest



Home builder J. Roger Glunt says reauthorization of a program that provides below-market-rate mortgages to young families will help the construction business.

rates for first-time home buyers with limited incomes.

In addition to stimulating the residential sector, the recently enacted tax law is expected to affect the real-estate industry in several other ways:

## Mortgage Interest And Capital Gains

Although the new law raised tax rates for upper-income individuals and small businesses organized as S corporations, the changes may benefit some homeowners and investors affected by those higher rates. The law establishes a 36 percent rate for joint taxable income over \$140,000 and single taxable income over \$115,000. In addition, a surtax is imposed on taxable income over \$250,000, which effectively raises the top individual tax rate to 39.6 percent from the previous level of 31 percent.

The higher marginal tax rates increase the tax benefits that some individual taxpayers can receive from deductions for home-mortgage interest, says Martin M. Shenkman, a tax attorney in New York City and Teaneck, N.J., who has just completed a new book, *Investment Strategies After The New Tax Act* (John Wiley & Sons, \$14.95).

Consider the example of a high-tax-

*Various provisions of the new tax law look like encouraging signs for the real-estate industry.*

bracket homeowner who can deduct \$9,000 for home mortgage interest and property taxes, Shenkman says. Under prior law, the homeowner's maximum federal tax benefit would have been \$2,790. Under the higher tax rates now in effect, the federal tax benefit would be \$3,564.

"In addition, the increased spread between capital gains and ordinary income will favor real-estate investments over other types of investments," Shenkman says. The new law retains the 28 percent maximum rate on long-term capital gains, establishing a substantial differential—nearly 12 points—between ordinary and capital-gains income for taxpayers paying at the 39.6 percent rate.

"Since real-estate investments can appreciate tax-deferred, because there is no tax until the property is sold, and then ultimately generate favorably taxed capital gains, some of the benefits which real-estate investments enjoyed prior to the Tax Reform Act of 1986 are back," Shenkman says.

## Credit Availability

The new law also contains two provisions designed to help ease the credit crunch, which has been a major problem for



builders and other small-business people. Steven D. Lebowitz, president of SDL Properties, Inc., in Beverly Hills, Calif., says, "The biggest problem we suffer from today in the commercial real estate side of the business is the lack of capital."

Edwin Sidman of the Beacon Cos., a Boston developer of commercial real estate, agrees with Lebowitz's assessment. "The real-estate industry, which represents more than 20 percent of the gross national product, needs a method of raising capital to continue to operate," he says. The new tax law partly addresses this issue, according to Sidman, who is also a senior vice chairman of the National Realty Committee, a Washington, D.C., association representing real-estate owners, advisers, builders, investors, lenders, and managers.

Specifically, the new law changes the tax rules governing pension funds to permit greater pension-fund investment in real estate. Under the previous law, pension funds that were otherwise exempt from federal income tax were subject to unrelated-business-income tax on their debt-financed investments in real estate if certain restrictions were violated. These restrictions prohibited such things as seller-financing and sale-leasebacks.

The 1993 tax act relaxes these restrictions. Commercially reasonable seller-financing will be permitted. Sale-leasebacks will be permitted if not more than 25 percent of the leasable floor space of the property is leased back to the seller and the lease is on commercially reasonable terms.

Also, pension funds will be able to increase their stock ownership in real-estate-investment trusts (REITs) without REITs being taxed as corporations. REITs are entities that invest mainly in real estate and distribute 95 percent of their income to shareholders. This change is expected to help expand the amount of capital available for real-estate investment and financing.

#### Discharged Debt

In addition, the law contains tax code changes that will permit small businesses to defer income in debt-restructuring situations. The tax penalty on discharged debt is eased by allowing individual taxpayers the option of reducing the depreciable basis of property by the amount of debt discharged, rather than paying tax on discharged debt in the current year. Discharged debt is considered income for tax purposes. Under this rule change, taxes are not avoided but deferred.

This change will assure that federal tax policy does not unduly drive properties into bankruptcy when some type of agreement could be reached between borrower and lender, says Steven Wechsler, president of the National Realty Committee.



PHOTO: GUY WOOD/BLACK STAR

**New tax rates** will make interest deductions more desirable, says Martin Shenkman, a tax lawyer.

#### Passive Losses

Another important change relates to the passive-loss rules for professionals in the real-estate industry. The change permits builders to do what people in all other businesses are currently allowed to do—subtract the losses in one segment of their business from the income generated by another segment of their business. Under the old law, excess deductions from passive activities, such as rental real estate, could not be applied against active income, such as wages.

According to real-estate experts, the effect of this provision is expected to help bolster values of income-producing property and restore a sense of parity to the tax system.

To qualify for passive-loss relief, real-estate professionals must prove they are actively engaged in a real-estate trade or business for over 50 percent of their annual work time and are working more than 750 hours a year in activities such as development, construction, conversion, acquisition, leasing, operations, management, or brokerage services.

To meet the test of the provision, tax experts recommend, real-estate professionals should keep accurate records of the time they spend providing such services.

#### Depreciation

In addition to the pluses in the new law, there are some provisions that are not so favorable to the industry. One in particular, says attorney Shenkman, is an increase in the depreciation period for commercial real estate to 39 years from 31.5 years for property placed in service on or after May 13, 1993. The depreciation

period has been lengthened so much that it no longer offers much in the way of tax benefits, says Shenkman.

For example, if a developer of commercial real estate puts in some walls and makes some improvements in a building, those improvements have to be written off over 39 years, even if the lease is only for 10 years. Both landlord and tenant are required to use this depreciation schedule.

Shenkman offers this planning tip regarding the depreciation rules: The more property that can be treated as personal property, such as equipment and certain types of plumbing hook-ups, the more rapid the depreciation deduction will be. Personal property can often be depreciated over a five- or seven-year period. To qualify as personal property, the property must be movable and must be more in the nature of an accessory to the conduct of a business rather

than a structural component of the building, he says.

Real-estate professionals believe it would be more beneficial to tie the depreciation period to the term of the lease. Wechsler points out that the extra revenue generated by lengthening the depreciation period to 39 years was "the means of paying the cost of the more-favorable real-estate-related tax changes."

Stephen N. Montgomery, national director of real-estate tax services for the accounting and consulting firm of Ernst & Young in Washington, D.C., says those who shape tax policy should consider more carefully the interplay between the revenue raised in stretching the real-estate recovery period to 39 years and the potential effects such a change has on real-estate values. Decreasing the annual depreciation deduction reduces after-tax cash flow and can lower the net present value of any property affected by the change.

The lower value would be passed on in the form of a lower sale price, and fewer tax dollars would be generated from such a sale. The ultimate result may be that the government, which made the change as a means of increasing short-term revenues, actually ends up a revenue loser, he says.

But overall, says Sidman, the Boston real-estate developer, the 1993 tax act is important to the real-estate industry in helping to stabilize values that have been severely depressed.

"Most of the real-estate provisions will stop the free fall," he says. "And that will be indirectly beneficial to the rest of the economy."



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## HEALTH-REFORM WATCH

# Give-And-Take On Health Care

By Roger Thompson

**T**he final version of President Clinton's health-reform plan, introduced in the House and Senate on Nov. 20, increased the number of small companies eligible for federal subsidies, but it also made the subsidies less generous than those initially proposed. Companies with 25 to 50 workers lost the most in the revisions.

The September draft of the president's plan contained a relatively simple subsidy design. Firms with 50 or fewer workers and average salaries up to \$24,000 would have paid between 3.5 percent and 6.5 percent of payroll for health insurance. Companies with average pay above \$24,000 would have had a health-insurance cost cap of 7.9 percent of payroll. The federal government would have paid the balance of a company's total health-insurance costs.

Under that initial proposal, the payroll caps moved upward on a sliding scale: Companies with average pay less than \$12,000 would have paid 3.5 percent; \$12,001 to \$15,000 would have paid 3.8 percent; \$15,001 to \$18,000 would have paid 4.4 percent; \$18,001 to \$21,000 would have paid 5.5 percent; \$21,001 to \$24,000 would have paid 6.5 percent; all companies over \$24,000 would have paid no more than 7.9 percent.

After the unauthorized release of the draft in early September, the White House decided to cut the federal government's cost of small-business subsidies by increasing the cost to employers. While the minimum and maximum payroll percentage caps remained the same—3.5 percent and 7.9 percent—all the intermediate caps moved up just over half a percentage point. The six income brackets remained the same.

Thus, by early October, the White House had settled on a new sliding scale of employer payroll caps: 3.5 percent, 4.4 percent, 5.3 percent, 6.2 percent, 7.1 percent, and 7.9 percent.

But the revised scale changed again shortly before President Clinton delivered his 1,342-page Health Security Act to a joint session of Congress on Oct. 27. Pressure from larger, low-wage firms to be included in the subsidies resulted in the White House's extending federal aid

to companies with "fewer than 75 employees," up from the previous maximum size of 50.

Nationwide in 1990, there were 72,421 companies with 50 to 74 employees, compared with 4.88 million companies with up to 49 workers, according to Small Business Administration data.

To expand eligibility without swelling overall costs, the White House had to

*The White House now recommends broader small-business eligibility for health-insurance subsidies—but smaller subsidies.*

ance payroll premium caps went through a series of changes, the final legislative language ultimately introduced in Congress closely matched the draft released in September. The framework remained unchanged: universal coverage, cost controls on insurance premiums and doctors' fees, a generous standard benefit package, and regional purchasing alliances.

Among other substantive changes and clarifications:

■ The target date for universal coverage to be in place nationwide was delayed one year, to Jan. 1, 1998.

■ The bill sets Jan. 1, 1997, as the date to end employees' use of flexible-benefit-plan pretax dollars to pay their share of health-care premiums or out-of-pocket expenses not covered by the health plan.

■ Health-insurance continuation coverage under the so-called COBRA law would be repealed Jan. 1, 1998, or the first day of the calendar year in which all states have their new health plans in effect, whichever comes first.

■ The bill calls for a 15-member commission to study the feasibility of merging workers' compensation medical coverage with health plans. The commission would report to the president no later than July 1, 1995.

■ All employer-paid supplemental coverage beyond the standard benefit package would remain tax-exempt until Jan. 1, 2003. Afterward, employees would be taxed on the value of the supplemental benefits. The draft plan had limited the tax exemption for supplemental benefits to coverage in place on Jan. 1, 1993.

Despite efforts to round up bipartisan support before the plan was introduced as legislation in November, the administration secured only one Republican co-sponsor, Sen. James M. Jeffords of Vermont. All 99 of the House co-sponsors were Democrats, as were the other 29 co-sponsors in the Senate.

The president's health plan joined a half-dozen other major bills aimed at overhauling the nation's health-care delivery system. Any reform plan eventually approved by Congress will most likely contain elements of several competing proposals.

## Revised Caps On Employers' Health-Insurance Costs

Average Number Of Full-Time-Equivalent Employees	Employer's Average Annual Wage Per Full-Time-Equivalent Employee				
	\$0 to \$12,000	\$12,001 to \$15,000	\$15,001 to \$18,000	\$18,001 to \$21,000	\$21,001 to \$24,000
1 to 24	3.5%	4.4%	5.3%	6.2%	7.1%
25 to 49	4.4	5.3	6.2	7.1	7.9
50 to 75	5.3	6.2	7.1	7.9	7.9

CHART: MICHAEL WOOD

SOURCE: THE WHITE HOUSE

revise its approach to employers' health-insurance payroll caps.

Rather than one scale of proposed caps, now there are three: one for companies with up to 24 workers, another for those with 25 to 49 workers, and a third for those with 50 to 75 workers. (See the chart above.)

The cumulative impact of these changes has been a significant boost in health-insurance costs for companies with 25 to 50 workers. For example, for a company with 30 employees whose average worker is paid \$17,500, the September draft plan called for a premium of 4.4 percent of payroll. The revised version calls for a premium of 6.2 percent of payroll.

Under Clinton's plan, the federal government would make up the difference between what a company pays for health insurance and the actual cost. When fully phased in, the estimated total cost of federal subsidies to companies with fewer than 75 workers would exceed \$21 billion annually (in 1994 dollars), according to the Urban Institute, a nonpartisan research organization in Washington, D.C. Capping health costs at a maximum of 7.9 percent of payroll for all companies would push total federal subsidies to nearly \$30 billion annually.

While the small-business health-insur-



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## TAXATION

# Preparing For A Shift In Ownership

By Albert B. Ellentuck and Terrance K. Resnick

**P**lanning for transferring ownership of a small business is usually associated with the shift of a family firm from one generation to the next. But it's a critical matter for any small business whose owners and managers want to maintain continuity of management. Failure to take the necessary steps for ownership transfer can threaten the very existence of the firms they worked so hard to build.

Individuals who have demonstrated exceptional foresight in creating a successful business are sometimes unaware of what needs to be done to turn that enterprise over to others when the owner dies, retires, or becomes disabled. They assume that a will or other conveyance will assure an orderly shift to children or other family members, to partners, to fellow shareholders of a closely held corporation, or even to a longtime employee.

Family members inheriting a family business face a double challenge: They must not only have sufficient cash to purchase the business, they must also pay estate taxes that can be so large that sale of the firm may be necessary to raise the needed cash.

In reality, the business often must be purchased for a fair price, regardless of the relationship—or lack of one—between the owner and the individual acquiring it. And instead of being easier than a straight commercial transaction, the shift of business ownership within a family or to close, longtime associates can

be subject to especially tough scrutiny by the Internal Revenue Service over concern that the close ties involved might mean a sale price less than fair market value.

For an estate valued at more than \$600,000, taxes can range from 37 percent to an effective rate of 60 percent, depending on estate size. The \$600,000 exemption, known as the unified credit, is available to all U.S. citizens. This shelter

*Entrepreneurs can lay the groundwork for an orderly transition in the event of their death, retirement, or disability.*

planning specialist. A matter at least equally important to the business owner is a determination of how the heirs will deal with the tax levy, particularly in situations where liquid assets are limited. Life insurance can help in such circumstances.

Lack of cash to purchase the business, as indicated, can be the downfall of a family firm. In many instances, the key to orderly succession is life insurance. A common situation involves a father plan-

ning to run his business until his death, a son counting on taking it over at that time, and a wife looking to the money from its sale to support her for the rest of her life.

What frequently happens, however, is that there is not enough liquidity for the son to purchase the business, and it must be sold outside the family. This situation can be avoided through a funded buy-sell agreement, where the son uses money from life insurance to buy the father's interest in the business.

In this situation, there would have been no federal estate tax because of the unlimited marital deduction, which allows a married individual to transfer assets to his or her spouse free of federal estate and gift taxes. The taxes are levied on the estate nine months after the second spouse dies.

Thus, when the mother sells her stock to the son, she will have the money she needs to support herself, and the son will have ownership of the business.

A funded buy-sell agreement can be the key element to the survival of a closely held business. It is more than just a life insurance arrangement, however. It is a written legal agreement that obligates the surviving owners or the business itself to purchase a deceased owner's share at an agreed-upon price.

Such agreements are not limited to families; they may be made among shareholders of a corporation, between part-



ILLUSTRATION: BRUCE W. MORRIS

**Founders often fail to provide for their businesses' continuity.**

can be used during the lifetime of the business owner or applied to a bequest. After that credit has been used, however, the business transfer must be an actual sale instead of a gift to avoid the federal gift tax.

For example, if the estate of an unmarried business owner was assessed at \$5 million (after utilization of the unified credit) and included a business with a fair market value of \$3.5 million, the federal estate tax would be \$2.4 million.

Business owners wishing to anticipate the tax implications of their estates should have an analysis done by an estate-

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ners, and between a sole proprietor and a key employee. They may cover not only the death of a principal but also retirement, disability, or other circumstance.

Without a buy-sell agreement, a decedent's business interest, perhaps a partnership or stock equity, passes at death by terms of a will or by the laws of intestacy. This means that the decedent's heirs or other beneficiaries could join the surviving owners of the business as partners or shareholders. If, however, the funds are needed to pay estate taxes or other debts, the estate or beneficiaries could choose to sell the decedent's business interest to an outside buyer. Depending on the extent of the interest, the sale could have a significant impact on the company's management.

**M**any of these problems can be eliminated through the use of a funded buy-sell agreement. Such an arrangement can provide for:

- Continuation of both the business and its management because the estate of the deceased owner is required to sell that individual's interest to the surviving owner/owners or to the business.

- Immediate liquidity through conversion of closely held stock to cash. It would be difficult if not impossible for the estate to sell a closely held business interest to third parties at a fair price because of the "fire-sale" nature of the offering.

- Payment of a fair and reasonable price for the business. The purchase price is established by the parties involved instead of by an IRS appraisal following the death of the principal.

- A method of pegging the value of the decedent's business interest for federal estate tax purposes if this method meets certain criteria.

Keep in mind that the IRS insists that the price set on the business be its fair market valuation. If that agency does not accept the proposed valuation, it will set a price, which can often be considerably higher than the business would have wanted and can create a larger tax liability than anticipated.

There are two basic types of buy-sell agreements: stock-redemption and cross-purchase:

- **Stock-redemption** is a contract between a business owner and the business. The agreement obligates the business entity to purchase the deceased owner's interest in the business at a set price.

Most such plans are funded with life insurance on the life of each owner. The company is the owner and beneficiary and pays the premium on the policies. Premium payments are not tax-deductible, but the insurance may be received free of income tax by the beneficiary.

The company uses the insurance proceeds to pay for a decedent's stock or

business interest. The estate receives the entire purchase price free of income tax. The tax basis of the stock for federal estate purposes is stepped up to its fair market value as of the date of the decedent's death. Thus, if the buy-sell purchase price equals the fair market value of the business, no gain is realized and no income tax is paid.

- **Cross-purchase** is a contract among the shareholders or partners engaged in a business. The agreement obligates the surviving co-owner or co-owners to purchase the deceased co-owner's business interest at an agreed-upon price.

Life insurance that funds a cross-purchase agreement is personally owned by the shareholders or partners. Each individual is owner, beneficiary, and premium payer of the policy on the life of his



**A realistic business valuation is essential.**

co-shareholder or partner. Even though the individual shareholders or partners pay the premium, that cost may be recompensed by the company through a bonus to the individuals. Upon the death of the insured, the surviving shareholder or partner purchases the decedent's business interest from his estate at an agreed-upon price.

The surviving shareholders or partners become the owners of the business. The purchase money paid into the estate of the deceased owner allows settlement of the estate, including tax payments and disbursements to beneficiaries.

Although the stock-redemption and cross-purchase arrangements appear similar in some respects, there are some very significant differences in the overall effectiveness of each.

A stock-redemption agreement is often used because of its relative simplicity, but it can have disadvantages. Among them:

- If the agreement is funded with life insurance and the business is a C corporation, the alternative minimum tax may be triggered when the insurance proceeds come into the corporation.

- The tax basis of the stock held by the surviving shareholders or partners is not stepped up to fair market value upon redemption of the deceased's stock because there was not an actual purchase of these shares.

- If the shareholders are related, payments to a shareholder of a corporation under a redemption agreement may be treated as a dividend rather than a sale of stock. Thus, family-owned corporations should avoid stock redemptions.

- Creditors of a corporation owning life insurance policies are entitled to both the cash value and death benefit before the intended beneficiaries.

- If the agreement is unfunded and a C corporation accumulates its earnings to redeem shareholders' stock in the future, the corporation may be subjected to the accumulated earnings tax.


A cross-purchase agreement also has some potential disadvantages if there are more than two shareholders. Because these problems can usually be handled, the cross-purchase agreement has become the choice of many estate-planning specialists. Those disadvantages are:

- Because each shareholder or partner owns a life insurance policy on each of the others, the premium amounts may be significantly different because of the age and ownership interest of the shareholders or partners. A possible solution is to have the business pay each individual a bonus covering the amount of the premium.

- Also, a business with four owners, for example, would need 12 life insurance policies to fund the agreement. This can be simplified, however, by using a trustee arrangement and naming the trustee as the owner and beneficiary of the policies.

- The policy's proceeds could be subject to the creditors of the shareholders or partners, and the surviving shareholders would have to purchase the decedent's policies, which would be taxable. Again, the use of a trustee arrangement could avoid these problems.

**T**he key to the successful transfer of a business is adequate planning and preparation. Although the necessary steps can seem complex and time-consuming, they are vital to avoid the chaos that family members, partners, shareholders, and employees often face when a business owner dies or becomes disabled.

 To order reprints of this article, see Page 78.



## TRANSPORTATION

# Hauling It For Less

By Julie Candler

**W**hen O.M. Scott and Sons began offering financial incentives to its 35 drivers to reduce fuel costs, Steve Simms emphasized the negative impact of his employees' tendency to run vehicles on idle while waiting for relief drivers to arrive at a rendezvous point. "We told the drivers that five minutes of idling is worth an hour of driving," says Simms, manager of trucking operations for the Marysville, Ohio, manufacturer.

With 35 tractors and 200 trailers, the company ships Scott fertilizer and other lawn-care products to distributors and retailers. The company's drivers also haul parts for a major automobile manufacturer.

Under the incentive plan, the company shares the money it has saved with its drivers. Every six months, drivers get \$50 each plus half the total savings, which is divided evenly among them.

The company says the program increased its fleet's fuel efficiency to 6.37

miles per gallon in December 1992 from 5.74 miles per gallon in June 1992. After the incentive bonuses were paid, the company saved \$16,000 over the six months.

O.M. Scott and Sons and other businesses with high transportation costs are discovering how cutting expenses can be instrumental in improving their companies' financial position.

Joseph A. BenVenuto, a Vandalia, Ohio, logistics consultant, points out that while it might take \$10 in sales to yield a dollar in net gain, a dollar in reduced costs alone adds a dollar to the bottom line.

BenVenuto says companies should be meticulous in measuring those savings. He asks how bowlers could master their game without keeping score and seeing the results of their efforts.

"If there is no defined goal to work toward, and there is no mechanism in place to measure performance," he says, "in most cases, the objectives will not be reached."

*A dollar saved is a dollar added to a company's bottom line. Here is how fleet managers can cut shipping costs.*

## Economizing On Fuel

Ronald Kleintop, distribution manager for Monier, Inc., a manufacturer of concrete roofing tiles that is headquartered in Orange, Calif., notes that his big trucks get significantly better mileage today than when he started in business in 1964—about 7 miles per gallon now, compared with 2 to 3 mpg 30 years ago. But he, too, has found that driver incentives can help cut fuel costs further.

Based in Boca Raton, Fla., Kleintop's fleet consists of 26 trucks in the Class 8 category (over 33,000 pounds in gross vehicle weight). The trucks are used for delivering 66,000-pound loads of concrete roof tiles directly to rooftops by way of conveyor belts carried atop the vehicles. Each month, Kleintop awards shirts to drivers whose fuel efficiency scores in the top half of the fleet. Fuel misers who score in the top half of a quarterly ranking win a jacket.

Recently, Kleintop invited an expert



PHOTO: SAKEN TOLICHON

**Incentives** such as shirts and jackets for drivers who post the best fuel-efficiency scores can cut operating costs, says Ronald Kleintop, distribution manager for the Monier roofing-tile plant in Boca Raton, Fla. His 26 trucks deliver 66,000-pound loads directly to rooftops by way of conveyor belts carried atop the vehicles.



from Mack Truck, based in Allentown, Pa., to teach Monier's 19 drivers the latest techniques in fuel-efficient synchronized shifting. Most equipment manufacturers, according to Kleintop, are more than willing to conduct seminars that teach drivers to operate products correctly. He says the fuel-saving program, started in late 1992, saved the company between \$35,000 and \$40,000 in 1993.

Another company working toward fuel savings is Radiometer America, Inc., a manufacturer of medical laboratory test equipment based in Westlake, Ohio. Mary Ellen Laskay, the purchasing manager, is responsible for a nationwide fleet of 120 minivans used by sales and repair personnel. For trial use in California, Laskay is considering buying dual-fuel minivans that run on both compressed natural gas and gasoline.

Compressed natural gas is attracting fleet managers' attention for several reasons. One is price: It costs only 70 to 80 cents for the equivalent of a gallon of gasoline. And because compressed natural gas, with its reduced emissions, leaves fewer deposits, there is less engine wear. Moreover, the 1990 changes in the Clean Air Act require that by 1998 at least 30 percent of the vehicles in a centrally fueled fleet of 10 or more cars or trucks run on an alternative fuel such as compressed natural gas.

One consideration for potential buyers of dual-fuel vehicles is the availability of compressed natural gas. Right now, it is sold at about 30 Amoco stations, nine Shell stations, two Mobil stations, one Exxon station, and one Chevron station. Amoco says it plans to make this alternative fuel more widely available.

#### Keeping The Wheels Turning

Companies can also save by maximizing the use of vehicles. "We gave our two leasing companies the option of coming up with something innovative that would reduce our costs," says Laskay of Radiometer. "We said we would give all of the business to the



PHOTO: BLAUFIL HANSEL-BLACK STAR

By equipping trucks with \$375 pallet jacks, says Steve Simms, left, trucking-operations manager at O.M. Scott & Sons, loading and unloading time has been cut about 30 percent. Employee Jerry Covert shows how it's done.

company with the best plan." Laskay ultimately accepted a proposal that extended the life cycle of 46 minivans in her fleet from 48 months or 60,000 miles, whichever comes first, to 48 months or 70,000 miles, with a minimum of 12 months in the fleet before replacement. The increase in miles per vehicle allowed her to save \$16,560 a year.

O.M. Scott and Sons strives to keep its semi-trailers running around the clock. Monday through Friday, "each driver works about 10 hours a day, days or nights, with some downtime between," says Simms, the manager of trucking operations. "A nighttime driver slips into the seat of a daytime driver and continues the round-the-clock operation. They call the system 'slip-seating.' You need to turn

equipment as fast as you can. When it's sitting, it's not making revenue for you."

#### Controlling Labor Costs

Labor is another area where savings can be realized. Consultants for Amersham Holding, an Arlington Heights, Ill., pharmaceutical company, designed a computerized schedule that allowed some employees to cover more territory in a day.

Many of Amersham's drivers deliver perishable doses of radioactive material stored in lead containers weighing 60 to 70 pounds from the company's 20 pharmacies around the country to hospitals and clinics that treat cancer patients. Fred DiBartolomeo, manager of fleet operations, says the company's 300-vehicle fleet was able to operate with 12 fewer drivers as a result of the consolidation.

To determine if a fleet is properly staffed, according to Tony Vercillo, owner of Greenwich Consulting, in Chino Hills, Calif., look at the number of available driver hours. If you have 10 employees working 40 hours a week, your available hours are 400. Then factor in vacations and other time-eaters like lunch and sick time, and you come up with actual available time.

Next, total the estimated time it takes to perform the tasks required to give quality service to your customers. Compare that with available time. If you have dramatically more hours of available time than the tasks require, Vercillo advises, you might want to consider making an adjustment in scheduling.

Paying drivers by the job instead of by

## Return Trips For Returns In Profit

To help private motor carriers get backhaul loads for return trips, the National Private Truck Council (NPTC) is introducing Private Link. The service provides a load clearinghouse and backhaul network.

In order to subscribe to the service, a company must be a member of NPTC, which is based in Alexandria, Va. Annual subscription costs range from \$135 for fleets of one to 24 trucks to \$450 for 101 or more trucks. For information, call Lisa Carole Gray at NPTC, (703) 683-1300.

Another source is DAT Services, of Portland, Ore. DAT's database has information on loads (available cargo) and equipment (available trucks). The service is operated by the Jubitz Corp., which owns Jubitz Truck Stops, located throughout the country. In 1970, listings of available loads began to be posted at the truck stops, and now such information can be viewed there on television monitors. The cost is paid by whoever posts each listing. For more information, call DAT Services at 1-800-547-5417.



## TRANSPORTATION

the hour is considered another excellent way to control fleet costs. Says Michael P. Lipman, principal with A.T. Kearney, a Chicago management consulting firm: "If a painter comes to your house and you pay him \$10 an hour, he has no incentive to be more productive if you keep paying him. But if you pay him \$250 for the job, he's going to do it faster."

"It's more conducive to increased productivity to pay drivers by the mile, or by the stops, or pickups, or some other system that fits a particular operation. It's a fair, equitable way to do things, and drivers go along with it."

Since Monier began paying by the job instead of by the hour two years ago, Ronald Kleintop says, the company has been able to reduce the number of employees from 56 to 32 (13 laborers accompany the 19 drivers to assist with delivering the heavy tiles to rooftops).

At the same time, Kleintop says, his department is handling 50 percent more work compared with the volume it handled two years ago.

Simms of O.M. Scott reduced loading and unloading time about 30 percent—and cut costs—where drivers delivered the company's own products on pallets. He equipped his trucks with \$375 pallet jacks, enabling drivers to load and unload their vehicles faster.

## Safety And Insurance

Insurance, which fleet managers say is one of their highest fixed costs, is another area worth investigating. "We're saving tons of money on insurance through our safety program," says Fred DiBartolomeo of Amersham Holding.

The company, which is self-insured, paid automobile liability and workers' compensation claims and fleet repair costs totaling more than \$1 million in the 1990-91 fiscal year. In early 1992, the company began an educational program consisting of an hour-long video on defensive driving and an exam that was given at the fleet's 20 pharmacies nationwide. Those who fail the exam after three tries can't drive a company vehicle. The program reduced the claims and repair bills to \$175,000 for 1991-92.

"I think safety is an attitude," says Ronald Kleintop of Monier. "We had 27 workers' compensation claims the year before we started a safety incentive program to reduce both accidents and workers' comp claims. The following year we had none, and in 1993, one."

"We bring accident prevention to the drivers' and workers' attention through safety meetings. Drivers without accidents are treated to a farm-style breakfast periodically and receive a company bonus ranging from \$25 for an accident-

free quarter to \$100 plus a \$100 bonus for four quarters without incident."

## To Own Or Not To Own

Some companies feel compelled to address the fundamental question of whether they should abandon their own fleets and use a commercial carrier.

Frits Kromhout, director of marketing and strategic planning for CF Motorfreight, in Menlo Park, Calif., maintains that for-hire carriage is cheaper most of the time, especially compared with a private fleet that has few backhauls.

"If you don't have the resources to get a load coming back, those costs just eat you up," he says. "It's hard to get backhauls because you are competing against professionals who do it for a living."

Steve Simms of O.M. Scott says his company tries to backhaul products when possible. "We do retail delivery to small towns in Ohio, Indiana, Michigan, and western Pennsylvania," he says.

Kromhout of CF Motorfreight adds: "Some firms are thinking of going back to private carriage. They find that flexibility is the critical issue because they want a high degree of customer service or need to make specialized types of deliveries. Then it's the right move."

## Pinpointing Your Costs Per Mile

The best way to find out if your company can justify the money it spends on fleet operations is to determine its cost per mile. Suggestions for doing that are offered by Joseph A. BenVenuto, president of Logistics Systems Information, Inc., a consulting firm in Vandalia, Ohio.

Figure in all out-of-pocket costs, such as drivers' salaries and reimbursed expenses, fuel and oil, and equipment leasing costs, he says. Also include the many additional expenses your fleet faces, such as facility rent, administrative costs, claims, fines, and even your office supplies.

The best source of information, he adds, is your company's own accounts payable department. You can use your total budget to help you figure cost per mile.

"Once you have that," BenVenuto says, "you will be able to benchmark your costs against others." Benchmarking is a way of measuring the practices and performance of an operation and using them as a basis for comparison.

For automotive cost comparisons, the amount allowed as a 1993 cost-per-mile driving rate for the U.S. taxpayer remained at 28 cents. A survey by *Automotive Fleet* magazine, in Redondo Beach, Calif., found that as of June 1993 the

average cost per mile for a fleet's compact to medium-size cars traveling 24,000 to 48,000 miles in a given time period was 20.68 cents, which included 7.16 cents for operating costs and 13.52 cents for depreciation.

The average cost per mile for private tractor-trailer fleets sampled in 1991 was \$1.43, and it decreased to \$1.41 in 1992. The sampling was taken by A.T. Kearney, a Chicago management consulting firm.

A fleet manager seeking improvement in his or her operation through benchmarking should compare his or her figures against those of other fleets in the company, then against competitors' costs. (Many companies are willing to reveal budget information, sometimes through trade associations.)

Next, a manager should try to benchmark against the best company of similar size and distribution network, but not necessarily a company competing in the same industry.

Finally, managers should evaluate their costs against for-hire carriage and dedicated-contract carriage, whereby one carrier contracts to provide trucks, drivers, and management of a company's distribution system.

According to the American Trucking Associations' Financial and Operating Statistic Series, the 1992 average cost per mile for sample for-hire truckload motor carriers was \$1.09.

A publication for fleets moving into benchmarking that might be helpful is *Private Fleet Benchmarks of Quality and Productivity*. The work is published by the National Private Truck Council, based in Alexandria, Va., and A.T. Kearney. It provides guidance on how a fleet manager can use benchmarking techniques to improve both customer service and fleet operations.

The cost of the 122-page 1993 survey is \$85 for NPTC members and \$115 for nonmembers. It can be ordered from the Private Fleet Management Institute, Publications Department, 66 Canal Center Plaza, Suite 600, Alexandria, Va. 22314, or by calling (703) 683-1300.

The book suggests how a company can be among the most cost-efficient. "Being average in today's industry and business is not necessarily adequate," says Michael P. Lipman of A.T. Kearney. "That's what benchmarking to be the best is all about. Some average companies have gone out of business."



# Winds Of Change In Franchising

By Meg Whittemore

*The growing sense of partnership is expected to strengthen in 1994.*

**S**tirred by a call for reform, franchising seems poised for change in several areas, including franchisee rights, franchisor financial disclosure, and government regulation. And a result could be a more collegial relationship between franchisees and franchisors alike. Consider these developments in 1993:

■ Public hearings were held in Congress on legislation that would require franchisors to disclose more financial data and would strengthen regulations designed to protect franchisees.

■ Lawmakers in several states considered legislation addressing issues such as contract renewal and transfer, product sourcing, and market encroachment.

■ The Uniform Franchise Offering Circular, the document that gives serious potential franchisees information on a franchisor's financial history as required by federal law, was rewritten to provide more data and improve clarity. The Federal Trade Commission (FTC) is expected to approve the revisions early this year.

■ An FTC official speaking at an American Bar Association franchising forum in October said the agency was looking into possible earnings-claims abuses at franchising trade shows.

■ Franchisees in several states challenged franchisors in court on alleged encroachment and false earnings claims.

■ The International Franchise Association, a trade group, worked with its members to address potential abuses.

In 1994, franchising will face continued attention from state and federal legislatures. Meanwhile, franchisors will strive to keep their franchisees happy and productive, and franchisees will face the demands of value-conscious customers in a slow-growth economy.

Stephen Lynn, chairman of the International Franchise Association, based in Washington, D.C., acknowledges the chal-

lenges that franchising faces, adding that "there are solutions, too." He says he is attempting to foster an atmosphere of inclusion, where franchisees and franchisors are viewed as partners.

Lynn cites three major problems in franchising: "There are some abuses going on by franchisors of the franchisees, either intentionally or accidentally; there is a fear of potential abuses among franchisees; and corporate takeovers of franchised companies lead to increased communication breakdowns with the franchisees."

There are, however, positive undercurrents. "The external pressures on franchisors will cause them to re-examine their relationships with their franchisees," says Jeff Kolton, president of FRANDATA, a retrieval service for franchise documents, in Washington, D.C.

The increased data required by the proposed new Uniform Franchise Offering Circular (UFOC), for example, will

improve record keeping, he says. "Both areas of pressure will result in more efficiently run franchise systems and will help would-be franchisees make better buying decisions," Kolton says.

While Lynn of the International Franchise Association does not think that a federal franchise law is the answer, he too sees a benefit to federal and state scrutiny. Lynn says he told Rep. John J. LaFalce, D-N.Y., who chairs the House Small Business Committee and introduced three franchise-regulation bills in 1993, "You are not the solution, but you sure have stimulated the solution."

One of LaFalce's measures would require increased disclosure by franchisors on franchise offerings; another would strengthen regulations aimed at protecting franchisees; and a third would attempt to ensure that potential franchisees receive accurate statistical information about franchising.

The disclosure bill is pending in both



PHOTO: SPUR & SQUERS

*The new year looks promising for Julia and Eric Henderson, who operate a Baskin-Robbins ice cream franchise in chilly Wasilla, Alaska.*



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the Energy and Commerce and the Judiciary committees of the House. The bill to enhance protection of franchisees is expected to have additional hearings in the House Small Business Committee. The information bill is in both the Energy and Commerce and the Post Office and Civil Service committees.

Lynn, who is also president of Sonic Industries, Inc., a fast-food franchise based in Oklahoma City, Okla., has succeeded in opening the International Franchise Association to franchisees of member companies; from its inception, the association had admitted only franchisors.

The organization is also pursuing self-regulation to identify and deal with such problems as false earnings claims, inadequate or no training, lack of effective franchisor-franchisee communication, requirements that a franchisee buy products only from the franchisor, and the siting of company-owned units that compete with nearby franchisees' stores.

Lynn acknowledges that the International Franchise Association's self-regulation efforts constitute only a start. But "this is like changing the direction of an ocean freighter," he says. "You can't turn it on a dime."

While Congress considers legislation, lawmakers in several states are expected to continue to examine franchising bills in 1994. (See "Legislative Focus In The States," on Page 56.) And the Federal Trade Commission is expected to approve the substantially rewritten Uniform Franchise Offering Circular, which potential franchisees use to evaluate the financial standing of franchisors. The revised document, say franchising specialists, will communicate the responsibilities of both franchisors and franchisees more clearly. (For details on the UFOC, see next month's *Nation's Business*.)

**H**ow are these varied developments playing out among franchisors and franchisees? In interviews with *Nation's Business*, franchisors say their heightened awareness of franchisee issues has prompted them to re-examine the way they run their businesses.

"I have great hopes for franchising in



The use of Snap-on tools in pit stops is giving the Kenosha, Wis., company's 2,691 franchisees added visibility.

the future," says Tommy Clark, director of franchise operations for Snap-on Tools Corp., based in Kenosha, Wis. (In a move that could boost name recognition for its 2,691 franchised dealers, the company has race car teams as customers.) The current efforts "to get companies to get closer to their franchisees and be more sensitive to their needs," Clark says, "is overdue, and it is necessary."

Franchisees such as Larry Williams, who owns a Steak Escape franchise in Springfield, Mo., says he thinks that all the attention directed at franchising in 1993—from congressional hearings to press accounts and litigation—has been causing a positive redirection of franchisor-franchisee relationships. Because each franchisee's needs may be different, increasing communication is essential, he says.

Steak Escape, based in Columbus, Ohio, is a fast-food chain that sells a variety of sandwiches, including a Philadelphia-style cheese-steak sandwich. For Williams, getting good personnel-management training from his franchisor has been important. It is extremely difficult "to get good people to work for you," he says. Thus, he adds, franchisors that, like Steak Escape, provide training in personnel management in 1994 will be doing a major service for their franchisees.

Kirk Kinsell, vice president of franchise sales and development for Holiday Inn



# Franchising

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Worldwide, in Atlanta, echoes Williams' opinion. "Managing employees is among the most difficult experiences franchisees will have," he says, and whether the workers are flipping burgers, greeting customers, cleaning houses, or changing the oil, they do need managing.

Kinsell says franchisors who provide management training "will have a franchisee constituency that will grow quicker, better, and richer."

Meeting the needs of franchisees will continue to be a challenge as they become increasingly diverse culturally, economically, educationally, and ethnically. "They are black, yellow, white, laid-off, retired, military, recent college graduates, females," Kinsell says, "and they are more vocal, harder to manage, less satisfied, more disgruntled, and more anxious than previous franchisees."

Their anxiety is well-founded. Consumers are increasingly skeptical, and meeting the bottom line in an uncertain economy is a daily challenge. Niche marketing, extraordinary customer service, and new management techniques are demanded.

Following are some examples of franchisees and franchisors who are meeting the challenges of the new year:

### A Cool Deal

It could be a scene out of the CBS television show "Northern Exposure." Julia and Eric Henderson sell Baskin-Robbins ice cream to the residents of Wasilla, Alaska (population, 4,028), where winter is the predominant season.

Why do Alaskans like ice cream? "Beats me," says Eric. "It's always been that way. Julia says it's because the snow reminds them of ice cream."

For the Hendersons, opening a Baskin-Robbins meant offering their friends and neighbors a place to socialize. "There's not much to do here in the winter if you don't ski," Eric says.

Eric, principal of Wasilla's middle school, moved to the town in 1978. Julia arrived a bit later, directly from her home in Korea. After running a restaurant with her sister, Julia decided she wanted to own a Baskin-Robbins franchise.

"Anchorage is 40 miles away, and every

time we went there we stopped by the ice cream shop," Julia says.

It is a long way to go for an ice cream cone.

"Initially, Baskin-Robbins was skeptical about selling ice cream to Alaskans," Eric says. The couple, however, did their own demographic research based on enrollment in elementary and high schools. What showed up was a growing market. "We have double the number of kindergartners and first-graders than high-school seniors," Eric says. "That indicates a real potential for growth."

The franchise opened in mid-1993, and

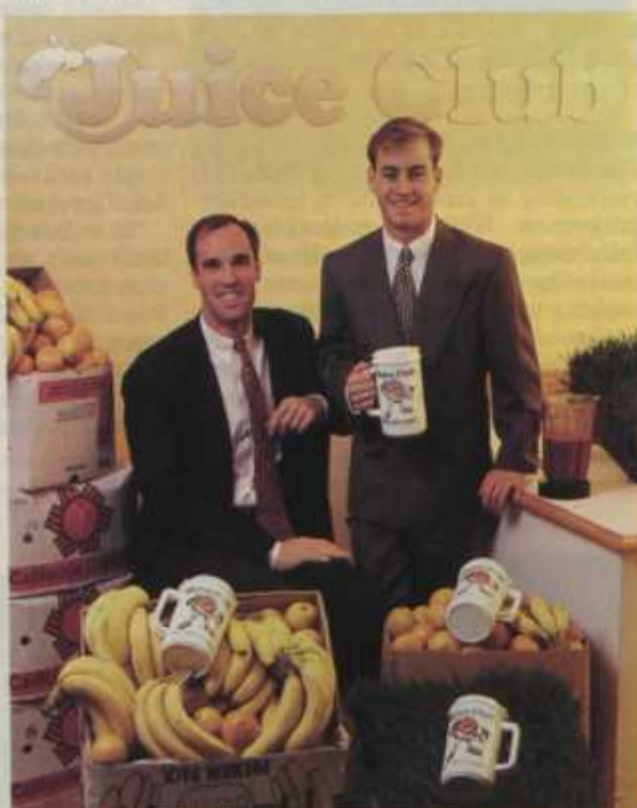


PHOTO: GILBERT BUE SCOTT

**Marketing** nutritious products: The Juice Club's president, Kirk Perron, left, and Kevin Peters, vice president.

sales for the first six months are now estimated at \$250,000, 72 percent higher than projections.

### The Little Gym That Could

For Barbara Devereaux, the Scottsdale, Ariz., franchisee of The Little Gym International, which teaches children ages 2 and older physical fitness, the appeal to own her own business was philosophical.

Devereaux sees harried parents every day trying to find safe, noncompetitive learning environments for their children. Because such places are limited, Devereaux believes that her potential for growth is unlimited. "The only possible problem I see is finding appropriate and affordable sites," she says.

Devereaux left the insurance industry

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with 10 years of management experience to start her family. When she returned to the work force, she discovered that the corporate demands on her life were too much for her to balance with the needs of her family.

"The philosophy of Little Gym was what won me over," says Devereaux, herself a mother of four. "So many things in a kid's life today are competitive. I was struck by the fact that kids could go into an environment, have fun, and along the way build confidence and self-esteem."

Her monthly gross for the first six months ranged from \$18,000 to \$24,000. More than 500 children have gone through Devereaux's program, and she plans to add mobile units that will visit day-care centers and preschools.

"Gone are the days when kids could safely play in the neighborhood, getting exercise, socialization, and interactive skills," Devereaux says. "The world isn't what it used to be. We provide a safe environment, and we are very protective of the children."



Helping build strong young bodies are Robin Wes, left, founder of Little Gym International, and Barbara Devereaux.

#### Meeting Customer Needs

Franchising has long had a reputation of responding to rapid shifts in consumer preferences. While the methodology of franchising is changing, the rules of niche marketing still apply. Businesses that exploit a narrow but deep customer need are bound to excel.

Case in point: J.D. Byrider, a company based in Marion, Ind., with 60 franchises in 22 states and Canada; its franchisees

sell used cars and offer dealer financing. "We have targeted the customer who needs reliable transportation but who can't get conventional financing," says James Money, president of J.D. Byrider. The market includes individuals whose credit has been damaged through heavy debt, job loss, or bankruptcy.

"We look at this as an opportunity to help people re-establish their credit," Money says.

Customers are given financial and budget-management counseling by the dealership before a car is sold. Each dealer also reports loan payments to a credit bureau.

Along with attending to the customer's financial needs, the company checks each vehicle sold against a 61-point list of mechanical components.

"It is listening to people, reacting to their needs, and going beyond customer expectation," Money says, that has made this niche fruitful. During the past four years, the company has financed 50,000 cars.

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overlooked customer base, Money says. Loans are for \$1,000 to \$6,000; interest rates run as high as 20 percent, primarily because of the loans' higher risk.

Money takes a positive view of the increased legislative activity surrounding franchising. "No matter what happens in Washington, franchising is still one of the most powerful strategies around," he says. "Legislation is not bad, and it shouldn't affect us since we've been in franchising and understand it."

### Capitalizing On A Trend

Taking advantage of the growing popularity of nutritionally balanced diets is the cornerstone of Juice Club, Inc., a health-food-store franchise based in San Luis Obispo, Calif. Juice Club features freshly squeezed juices, healthful snacks, and "smoothies"—nutrient-fortified blended drinks that substitute for meals. Kirk Perron, president of Juice Club, says, "We are helping people improve the quality of their lives through nutrition."

But there's more to Juice Club than capitalizing on a consumer trend. "Freshly squeezed juices have been around forever," says Perron, "but no one has been able to take those products and market them effectively and merchandise a store the way that we do."

All of the products are made to order, in full view of the customer. "We basically grant our customers complete access to us," Perron says. "The store, us, and our products are all visible. It is a big part of our success."

Marketing efforts start with Perron

**Know your market, know your customer, and above all, know your franchisee.**

—Joseph Simone, President, Mamma Iardo's

and filter down through the company. He decided that the company's growth would be determined by its customers' preferences and lifestyles.

Armed with customer research data, Perron markets his company's products accordingly. "Our customers are typically

educated about nutrition and health," he says. "Often they live in college towns, have high income levels, and exercise regularly."

Offering educational literature on nutrition and health foods at the stores is one way Perron gives customers added value. Another way Perron reaches his customers is by making sure every employee thoroughly understands the products and can discuss them with customers.

It costs up to \$200,000 to open a Juice Club, mainly for store construction. An average store employs 30 people, mostly part time, and serves more than 900 customers daily. Sales from three locations were \$2 million in 1993.

Perron says he is expanding slowly and carefully. "We realize we have to have happy and successful franchisees," he says. "If we don't have that, then we might as well close our doors right now."

Perron expects 1994 to be a highly successful year for his business. "I have found a narrow niche, I have profiled my customer, trained my people, and I am committed to being in this for the long haul," he says.

### Catering To The Customer

Wary consumers continue to watch their spending, and that means anyone who



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sells a product or service must scramble to offer extraordinary customer service and attention. Buyer's Resource Real Estate, Barry Miller's company, based in Englewood, Colo., markets itself as an advocate for buyers in real-estate transactions.

Traditional real-estate agents represent the seller. While buyers' agents have been around for a while, Rodney Gansho, a policy consultant with the National Association of Realtors, a Chicago-based trade group, says that "the concept has just recently begun to take off." Regulations regarding buyers' agents vary from state to state, but every state allows agents to work as buyers' advocates. Typically, a Buyer's Resource agent splits a 6 percent fee with the seller's agent.

"Our duty is to negotiate the best possible price, terms, and conditions for the buyer," Miller says. "We shop the lenders as well and help with all the steps right up to and through closing."

Buyer's Resource Real Estate has more than 60 franchises in 22 states, and it has plans to open throughout the country. "I want every consumer in the world to have this service put in front of them before they ever look at another

piece of real estate," Miller says. "That is my objective."

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PHOTO: GARY STUBER

Barry Miller founded Buyer's Resource to represent buyers in real-estate purchases.

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# Franchising

SPECIAL GUIDE

strong relationships with franchisees is the money-back guarantee offered to franchisees of Mountain Mike's Pizza, based in Sacramento, Calif.

Mountain Mike's franchisees may sell their no-frills pizza parlor franchise back to the parent company at the end of 33 months for the entire start-up cost. "People are entrusting us with their savings," says founder Ernie Stewart. "What if owning a franchise isn't for them? At least they get their money back."

To be eligible for the money-back guarantee, the franchisee must be current with the rent, payroll taxes, royalties, and advertising fees.

If the franchisee has lost money while operating the business, the amount of the loss is not refunded.

Start-up costs range from \$150,000 to \$180,000 depending on the location. The guarantee program, part of the franchise's corporate strategy, was launched in early 1993, and so far there have been no takers. Revenues of the system's franchisees totaled \$23 million in 1992.

"With the economy so uncertain, how do we take the fear out of owning your own business? By guaranteeing that we will give you your money back," Stewart says. "We say that our franchisees are our customers. We have to provide the same

level of service to them that they provide to the general public."

**R**elationships between people drive franchising, and as the federal and state governments expand their oversight of these relationships, it might be helpful to remember this new year's tip from Joseph Simone, president of Mamma Ilardo's, a Baltimore-based pizza franchise with 55 locations. "Franchisors must recognize that they have two customers today: their franchisees and the consumer buying the product or service," Simone says. "The days of 'build it, and they will come' are gone. You'd better know your market, know your customer, and above all, know—and service—your franchisee."

Steve Lowrey, a former franchisee for—and now part owner of—Deck The Walls, an art-and-frame company based in Houston, offers this advice for franchisees: "Try to keep in mind that you have a responsibility to not only running your businesses but also to communicating with your franchisor about everything connected with your business. That means the good news as well as the bad. Franchising works only when both the franchisor and the franchisee make an effort to communicate, air mutual concerns, and work together as partners."

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## Legislative Focus In The States

By Neil Simon

In 1992, Iowa enacted a comprehensive statute governing franchisor-franchisee relations, which set the stage for increased state legislative attention to franchising. Bills dealing with the franchisor-franchisee relationship were introduced in 12 states in 1993.

The Iowa law, the Iowa Franchise Act, was the first new franchise law on the books since California's adoption in 1980 of its Franchise Relations Act.

The Iowa statute, which was opposed by many franchisors, covers a broad range of issues, including termination of a franchise, renewal and transfer of contracts, sourcing of products, and encroachment on markets. It also requires that a franchisor engage in good faith and fair dealing with franchisees.

Opponents of the franchise act hope to

Neil Simon is a Washington-based franchise lawyer and former government-affairs director of the International Franchise Association, where he tracked state legislative activity.

revive a bid to repeal the legislation in 1994.

Franchise laws identical or similar to the Iowa Franchise Act were introduced in legislatures in California, Connecticut, Indiana, Massachusetts, and South Dakota in 1993. Although no action was

**Various states considered regulating specific areas of the franchise relationship in 1993, and more of that activity could occur in 1994.**

taken on the bills, the lawmakers could consider them again in 1994.

Other states considered regulating specific areas of the franchise relationship last year, and more activity of that kind is expected in 1994.

Perhaps the most intense legislative battle in 1993 was fought in Texas. The proposed measure, which was aimed at restaurant franchises, would have im-

posed a duty of good faith, restricted the grounds upon which a franchisor could withhold its consent to transfer the franchise, required good cause for termination or nonrenewal, and prohibited encroachment of the franchisee's market.

Texas' Senate approved a substitute bill that would have extended coverage to all fast-food restaurants, revised the duty of good faith, and required use of non-binding alternative-dispute-resolution processes. The Texas House, however, rejected the bill by an 82-to-59 vote. Reconsideration of franchise relationship legislation is likely during the state's next legislative session, in 1995.

In New York, legislators looked at a bill that would prohibit franchisors from opening units in "unreasonable proximity" to existing units and would also regulate termination, nonrenewal, post-term noncompete covenants and sourcing.

The bill was endorsed by the New York attorney general at a Sept. 27, 1993, hearing. Action on this legislation is possible in 1994.

Other state legislatures that considered bills that would regulate specific areas of franchising in 1993 included Arkansas, Illinois, Oklahoma, and Utah.



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## INTERNATIONAL TRADE

# Making Overseas Connections

By Roberta Maynard

**T**he meeting was held, appropriately, near New York City—one of the nation's busiest ports. More than 90 domestic manufacturers and 66 export intermediaries had come to the conference in Newark, N.J., to seek and be sought. Manufacturers were trying to interest export companies in taking their products to new, international markets, and export companies were looking for new products to market overseas.

Including interested observers, 1,014 participants were drawn to the event this past fall, the fourth annual export-matchmaker conference sponsored by the U.S. Small Business Administration (SBA), the Metro Newark Chamber of Commerce, and businesses.

Over the years, the SBA has begun several initiatives designed to inform small companies about exporting their goods overseas. The matchmaker in Newark has been among the most successful and has led to the recent expansion of the program to other cities. Attendance in Newark has grown steadily since the first conference drew 400 participants. The three previous Newark matchmakers helped generate more than \$7 million in export sales for companies that were new to exporting.

At the latest Newark conference, the first of the two days was dedicated to workshops. On the second day, manufacturers displayed their products on the exhibit floor; the goods ranged from the mesmerizing to the mundane, from the high tech to the low. There were log homes and toys; seismographs and backpacks; cardiology catheters and nail polish; mainframes and beach chairs; emergency vehicles and gift ribbon; fiber-optic connectors and vitamins; software and girdles.

Several manufacturers had not yet found a particular country for their products; at this point they just knew that they wanted to become exporters.

The conference was the first foray into exporting for Floyd S. Jacobs, president of Jay Syrup Co., a 50-year-old, family-owned company in Hillside, N.J., that makes sundae toppings, pancake syrup, and flavors for carbonated beverages. The company has 42 employees and annual sales of \$6 million.

"We are still sorting out all the leads we got—about 12 viable ones," says Jacobs. "There was a lot of interest in taking our



PHOTO: JERRY ROSEN, PORT AUTHORITY OF N.Y. & N.J.

*Matchmaker conferences bring together manufacturers and export firms.*

product to Russia." Africa and the Caribbean are also possibilities.

Within a few weeks of the conference, Jacobs had already sent samples overseas with export companies, hoping some would agree to handle the export side of the operation, he says—"the documentation, distribution, and so on."

Along with the newcomers, there were veteran exporters, including Manny Zelzer, president of Dallas-based Richland Beverage Corp., which has been exporting its Texas brand of nonalcoholic beer and soft drinks for 40 years. Now exporting to Asia, Canada, and Mexico, Zelzer is interested in even more markets. The matchmaker's "biggest advantage," he says, "is the exposure. Hundreds of people are available in one place. We made a lot of contacts that we didn't have before. My feeling is that it certainly did accomplish what I was seeking to do."

While some contracts were signed on the exhibit floor, most of the deal making occurs more slowly. "We're kind of cautious about what we're doing," says Baxter W. Cody, sales manager of Phillips Hosiery Mills, Inc., in Buffalo, S.C. "This conference was really a learning experience for us. We found how easy it is to get

*Matchmaker conferences help small companies expand their horizons.*

into exporting but also how complicated it can be. But it left us with enthusiasm, and we're going to pursue it."

Steven M. Perry, president of Robco, a custom injection molder based in Bronx, N.Y., says: "We thought mostly [about] Latin America and the Third World, but [export companies] are talking to us about Western or Eastern Europe. Even now, some of our products are being shown overseas through contacts we made at the show."

According to Perry, whose company manufactures combs, mirrors, and other plastic products, "It usually takes six months to a year to get something lined up. We're taking it one step at a time." Robco has 25 employees and had revenues in 1992 of \$900,000.

**O**n the other side of the equation at the matchmaker conferences are the companies in the business of helping firms export. They generally specialize in certain areas of the world and usually in certain types of products. Some are fee-based; others work on sales commission.

Tamara Hoffman, president of China Information & Trade Exchange, Inc., in Warren, N.J., works on an hourly basis as a trade consultant, doing market research, negotiations, translating, and related services. "Many manufacturers are not very sure of how to use a consulting company" for exporting, she says. "It will be a slow process because exporting is new to them and China is new to them. But we're optimistic." She, too, is developing leads based on contacts made at the conference.

The matchmaking notion seems to be gathering steam. Last year, Halifax, Nova Scotia, hosted its first matchmaker conference after seeing the success of the SBA's efforts. A Montreal matchmaker took place in December. The SBA, meanwhile, will co-sponsor its second Virginia conference in May; plans are under way for an SBA-sponsored conference in California at a date to be determined; and Newark is planning its fifth matchmaker for the fall of '94. The SBA hopes, eventually, to conduct export matchmakers in every region of the country.

For information on matchmaker conferences in Newark or elsewhere, call John Miller at the SBA's Office of International Trade, (202) 205-6720.



# Family Business

*Coercing offspring to take the reins; planning around personal considerations; dealing with a son's illness.*

## OBSERVATIONS

### Legacies Not To Leave Your Children

By Sharon Nelton

When family-business owners speak in public about their families and their businesses, they rarely touch issues so painful as the ones Malcolm A. Borg talked about when he addressed the Family Firm Institute's recent annual conference in New York.

Borg is chairman and CEO of Macromedia Inc., a \$160-million-a-year newspaper publishing and television broadcasting company based in Hackensack, N.J. At 55, he is a third-generation corporate leader who has been looking at what should become of the business when he can no longer run it.

Too much is made, he said, of "trying to keep the business in the family way beyond the time that it should remain with the family." If none of his three children—two sons and a daughter in their 20s and 30s—want the business, "then I say, in my will, please sell it."

Borg says his own father would have preferred to be a doctor or a college professor but was pushed into the business by his father, whom Borg described as a "very, very powerful, controlling, self-made man."

"Being coerced into a family business

that is really of not much interest to you, when your heart is perhaps on something else, can do very, very strange things to your head," said Borg. His father took over in 1949, said Borg, and the business grew because Bergen County, where it is located, grew and because Borg's father was fortunate to have capable executives around him.

But the family, said Borg, was "dysfunctional." Sibling rivalry was instilled in Borg and his brother, and his brother "surrendered to the bottle." The brother, said Borg, is "a wonderful, caring guy, but he could not put up with what our father demanded of him. The standards were either too high, or they somehow didn't match his personality."

Borg took over as CEO a day short of his 33rd birthday, in 1971. He wanted to be in the business, but he lacked self-esteem, he said. He found it difficult "to figure out whether or not I had deserved the honor of being the CEO."

Alcoholism riddled the family, playing a role in his mother's death seven months after Borg became CEO and in the death of his father four years later. Borg thinks alcoholism is partly genetic, but the fact



PHOTO: T. MICHAEL KEZA

that the family was in a high-pressure business that put "gigantic demands upon the head of the family" did not help.

Borg found he had his own alcohol problem to deal with. Two years ago, his attorney and his assistant confronted him about it. He stopped drinking and went into alcohol rehabilitation. But before he left, he said, he posted an announcement on the company bulletin board to tell his staff that "I had an alcohol problem, and I was going to go away to get help." He wanted to set an example that might help others.

Borg's main message: Don't force your offspring into the business. "I would hate like hell to leave my kids with the burden of 'carrying on a legacy' that they should not carry on because it's going to mess them up and make them as dysfunctional as I've been or my father."

The Borg family story is not over yet. "I've done the best I can," said Borg, "and I'm going to keep trying." Meanwhile, he's done other family-business owners a favor by sharing difficult parts of his story and issuing warnings against the bitter results of coercing a reluctant child into the family firm.

## PLANNING

### How A Family Shapes Business Strategy

By John L. Ward and Craig E. Aronoff

*It's important to keep family and business separate. You don't want family circumstances to affect the business. Run the business like a business!*

This advice is frequently and easily given to family-business owners. It is also quickly taken by business leaders who hope their families will just leave them alone to manage their businesses as they see fit.

Although it's helpful to clearly separate family from business on many issues, as we suggested in a recent column on ethics, we think it's naive and inappropriate to separate business and family on all topics. For example, we think business leaders

do—and should—think about the family when shaping a company's long-term strategy. Strategy, after all, is formed by creatively melding the demands and opportunities presented to a business by the marketplace and the goals of those who own the business.

Sometimes, the ways in which a family can shape strategy can be a bit frivolous. We know of one business that opened branches in towns where the owner's children went to college. Perhaps with no harm.

We know of another family that started a travel agency for some in-laws because it was the easiest way to support them



PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.



with business from the original, core company.

Our experience has also shown us how family considerations can be crucial to business success. Strategic insights and energy are gained when the family's character, structure, and values help to formulate its business strategy.

Consider the following case. A business headquartered in Indianapolis makes a product that can be shipped economically only about 200 to 300 miles. The company now successfully dominates the regional market and is exploring growth options. Should it purchase a similar plant in Phoenix? Should it add related products to its line to sell more in Indianapolis? Or should it start up from scratch with new locations in such West Coast cities as Los Angeles or Seattle?

If the family evaluating these options includes two offspring who are very independent and very entrepreneurial and who are already living on the West Coast—one is a sales representative for a Los Angeles company, and the other is married to a spouse who works in Seattle—then the answer may be fairly clear. The two adult children can be brought into the company, and the family can then start up new locations in the two West Coast cities.

On the other hand, the family may be very close emotionally. The two children may bring different but complementary strengths to the business—one great at operations, the other in sales. Then, we would predict, the product line will be expanded, and everyone will remain in—or be lured back to—Indianapolis. The Phoenix acquisition might make sense if the parents were looking toward semiretirement there.

Is it wrong to set strategy this way? We used to think so, but now we are more open-minded.

Certainly, a decision must make business sense. You would not start the new ventures in Los Angeles and in Seattle if the offspring weren't competent or if the market wasn't receptive.

If there are no such drawbacks, however, then we'd endorse the start-ups even if one of the other options looked more promising financially. The reason: We find that if the owners and leaders personally are much more excited by one good strategy than by another one that may look better, the "good" one will be implemented better. A strategy that fits the owning family's vision and is compelling to them has the best chance of success—as long as it is also economically sensible.

A more subtle but possibly more important variable is the fit between a business strategy and the family's values. We believe the best possible strategy is achieved when there is powerful, reinforcing consistency between business strat-



ILLUSTRATION: DAVID CHEN

egy and family beliefs. As Terrence E. Deal and Allen A. Kennedy said in their book, *Corporate Cultures* (Addison-Wesley, 1982): "Companies that do the best over the long haul are those that believe in something."

For example, some families deeply believe that a spirit of entrepreneurship is the basis of a great culture for their

business and is a great value for their families to hold. These owners will urge entrepreneurial growth for the business.

Other families want to stand for certain social causes. Often their businesses will either support those causes or will be in a line of work that serves them. We know food-processing and newspaper-publishing families that feel that their family businesses make a special contribution to society. The children of scrap dealers increasingly see themselves as recyclers who are saving the environment. They approach the family business with new enthusiasm and insights, fueling new strategies.

Indeed, as Chicago psychologist Susan Golden points out, "Satisfaction with being an ongoing part of the business is often related to the level of fit between family values and the nature of the business."

Strategy is not science. Even though detailed financial analyses are useful, evaluating strategic alternatives is ultimately a subjective exercise.

We find that the best family-business strategies are those that pass all the financial-analysis tests but also "fit" the owning family's personality, structure, and values.

Nothing is more important to strategic success than the family's passionate commitment to the chosen strategy.

## MARK YOUR CALENDAR

Jan. 9-21, Evanston, Ill.

"Managing the Closely Held Company in Changing Times" is a seminar for owners of businesses with 50 or more employees or more than \$5 million in annual sales. Call Executive Programs, Kellogg Graduate School of Management, Northwestern University; (708) 467-7000.

Jan. 11, Southfield, Mich.

"Family Meetings and Outside Boards of Directors," a workshop sponsored by the Family Business Council, features *Nation's Business* columnist Craig E. Aronoff. Contact Rick Segal at (313) 353-5600.

Feb. 2-5, Safety Harbor, Fla.

"Polarities and Complementarities: Intergenerational Relationships in Family Business" is the theme of a seminar sponsored by the Program for Continu-

ing Education for Women in Family-Owned Business. Call Barbara J. Dawson at (412) 922-5747.

Feb. 14-15, Longboat Key, Fla.

"Tax-Free Wealth Transfer and Asset Protection" is a conference for family firms worth more than \$3 million. Call the National Center for Family Business at 1-800-538-6404.

Feb. 15, Houston

"Family Business Succession" is the topic of an all-day meeting featuring *Nation's Business* columnist John L. Ward. The meeting is to be repeated Feb. 16 in Dallas. Contact Nancy Upton at (817) 755-2265.

### How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to *Family Business*, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000.



## CASE STUDY

## Dealing With A Son's Illness

Suzanne Forest is stuck between the demands of two polarized camps: her ill son on one side and her other three children on the other.

Suzanne's husband and youngest son died in a boating accident seven years ago, requiring Suzanne to give up her housewife role and become active in Forest Sports Equipment, the family's manufacturing company. With her two oldest sons, Rob and Erik, in charge of operations, Suzanne, as chief executive officer, watched sales grow tenfold. Her daughter, Louise, is a top salesperson for the business.

Shawn, 32, her youngest surviving child, was diagnosed as a manic depres-



ILLUSTRATION: DAVID CHEN

sive three years ago and is now on medication. Before Shawn was diagnosed, he got into terrible arguments with Rob, Suzanne's most likely successor. Shawn

felt that he, not Rob, should become the company's leader.

The truth is, his siblings had created opportunities for Shawn, but he never performed. Sometimes, he wouldn't even show up. Finally his brothers and sister told Suzanne that Shawn had to be fired. She agreed, and he was let go. Now Suzanne regrets that decision.

Shawn insists it's his birthright to work in the company. The three active children tell her that if she rehires Shawn, they will quit. The decision to rehire is Suzanne's. She still owns 100 percent of the stock.

Shawn's wife recently left him, and Suzanne fears he can't handle more losses. She knows she risks alienating Shawn or the other children with whatever decision she makes. She is 65, and unless she makes estate and succession plans, estate taxes could cripple the business. What should Suzanne do?

## Build On Family Strengths

The strengths and competencies of this family are evident in how they dealt with the family and business crises precipitated by the deaths of the father and the youngest son. The Forests had the resilience to adapt to these losses and the competency not only to maintain the business but also to grow it tenfold. These same resources can be utilized to confront the issues now dividing the family.

One approach to Suzanne's quandary would be to address the relationship issues before trying to resolve management and ownership concerns. Suzanne and her four children could take



PHOTO: VINCE GERO

Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix.

steps to define their current relationships with one another and determine where they would like these relationships to be in the future.

Shawn's diagnosis of bipolar disorder (manic-depressive illness) at age 29 suggests that he may have been exhibit-

ing symptoms long before the problem was identified. The typical age of onset for bipolar disorder is in the early 20s. Shawn's siblings may have misinterpreted his symptoms as lack of performance or as grandiosity.

Obtaining and sharing new information regarding Shawn's potential for the future could result in new perspectives on their relationships.

It would be helpful for Shawn to change his image as a "special-needs" person. He may be able to gain credibility in this performance-oriented family by working outside the family business before considering re-entering the company.

Once the family issues are addressed, management- and ownership-transfer issues may be pursued with greater clarity. At this time, Suzanne may want to consider giving voting shares to the older children currently active in the business and nonvoting stock to Shawn to maintain his connection with the family and with the business.

## Understand Challenges

The first thing Suzanne must do is start living in the present. Although she owns 100 percent of the stock, she shows little "psychological ownership" of the company.

It seems that she still considers it her husband's business. Neither the firm's impressive growth since his death nor its likely decline if her three children were to quit carries sufficient weight in her judgment.

One might even wonder if Suzanne feels guilty that the firm is doing so well without her husband. That, coupled with some "survivor guilt" over the death of her husband and her son, may



PHOTO: SHARIT BARTHOLOMEW

Marta Vago, a family-business consultant and psychologist whose practice is based in Santa Monica, Calif.

dispose her to unconsciously try to return the business to an earlier time, when her husband was alive and running the company, all her children were living and well, and her own life at home was more manageable.

We must also ask to what extent Suzanne

and the rest of the family understand manic-depressive illness. Shawn's belief that he is qualified to run the business is a classic case of manic grandiosity, something that needs to be continually monitored and managed therapeutically, including—but not limited to—medication.

Not unlike alcoholism, manic-depressive illness is a family affair; everyone is affected by it. Unless the entire family is educated about the illness and involved in managing its challenges, the following routinely happens:

- Various family members either deny, minimize, or misinterpret the nature of the illness.

- Various family members either ignore, isolate, try to reason with, punish, or "rescue" the afflicted person.

- The manic-depressive does not get what he or she needs beyond medication, and the rest of the family becomes mired in unending conflict.

Clearly, a medical condition cannot be treated through business decisions.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Mike Cohn, president of The Cohn Financial Group, Inc., in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.



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In addition to providing immediately useful information to readers, we also make a special effort in our editorial content to alert them to additional resources that will help them improve productivity and profit. These resources include the type of products and programs described on these pages.

We have expanded this listing substantially in response to the dramatic increase in the demand for help in meeting the need to improve managerial skills in the face of the many new challenges that businesses face today.

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Each of these products meet the same rigorous standards we established for Nation's Business magazine. Our staff has spent months—in conjunction with outside consultants—reviewing, rejecting, and recommending products. Those that meet our expectations appear on these pages.

I urge you to examine these programs, courses, and tutorials. They can spark ideas, techniques, and even sales. These products can make a major difference! And every one comes with our 100% satisfaction-guaranteed pledge: If you don't get what you want from it, you can return it for a no-questions-asked refund or cancellation of your credit card charges. You can't miss with Nation's Business!

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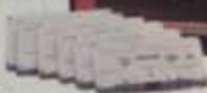
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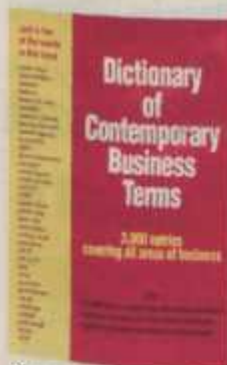


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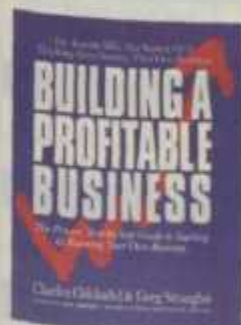
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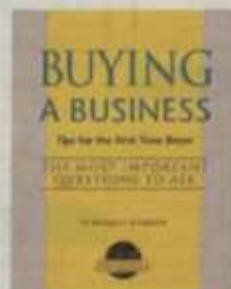
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# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

By Phyllis M. Barrier

## A Really "Killer" Tan

When Betsy got back from the beach, a co-worker said to her, "Gee, you're really tan." Betsy quickly replied, "Thanks!" Like Betsy, many people still mistakenly equate a suntan with good looks and good health.

Excessive exposure to the sun can cause skin cancer, which is the most common form of cancer in the United States. The sun also causes skin damage that is widely—and mistakenly—assumed to result from aging: fine wrinkles and age or liver spots on the face, hands, and arms. In other words, the sun's effects run directly contrary to the whole idea of looking young and healthy.

The most common form of skin cancer is basal cell carcinoma, followed by squamous cell carcinoma; these two kinds of cells make up the epidermis, the skin's outer layer. The third most common form of skin cancer and easily the most serious is malignant melanoma, which develops in pigment cells and is most often signaled by a change in the size, shape, or color of a mole. Malignant melanoma can be fatal. If untreated, it can spread throughout the body.

Skin cancer can afflict anyone. High-risk groups include people who have fair skin and sunburn easily; work outdoors or are otherwise exposed to considerable sunlight; have had severe sunburns during childhood or adolescence; have a higher than average number of moles; have multiple atypical, or unusual, moles; suffer from genetic diseases characterized by intolerance to sunlight; or have a family history of skin cancer.

Experts at the American Academy of Dermatology believe that three-fourths of all skin cancers can be prevented if potential victims take simple precautions against the sun's ultraviolet radiation. If you are fair-skinned or have relatives who have had skin cancer, avoid unnecessary sun exposure. If you spend time in the sun, wear protective clothing such as a

sun hat and long sleeves to help reduce the penetration of ultraviolet rays. Avoid direct exposure in the middle of the day, when the sun's rays are strongest.

Use a sunscreen with a sun protection factor (SPF) of at least 15. The SPF rating is based on the time needed to produce a sunburn on unprotected skin. For example, if a fair-skinned person



PHOTO: JAMATHEN BORKUMS-FOLIO INC.

**Home users of sun beds and sunlamps have an especially high skin cancer risk.**

would normally turn red after 10 minutes of exposure to the sun, a sunscreen's rating of SPF 15 means that it would take 15 times longer to burn, or 150 minutes.

Sunlight has two types of harmful ultraviolet rays: UVB and UVA. The UVB (ultraviolet B) rays are the sun's burning rays, the primary cause of sunburn and skin cancer; window glass blocks them. UVA (ultraviolet A) rays, which pass through window glass, penetrate more deeply into the skin and appear to be the culprits in premature wrinkling; they also contribute to sunburn and skin cancer. Be sure that the sunscreen you choose protects against both kinds of rays.

There is new evidence that sunscreens work. Australian researchers conducted a

study on 588 men and women ages 40 or older who were randomly assigned to use either a sunscreen or a placebo—a lotion without sunscreens' protective ingredient—from September 1991 through March 1992, a period that included an Australian summer. The subjects were checked for solar keratoses: small, wart-like growths that result from overexposure to the sun. Such growths are forerunners of squamous cell carcinoma. The results, published last October in the *New England Journal of Medicine*, showed that the sunscreen users averaged a net loss of about one keratosis, while those in the control group gained one.

Sunscreen should be applied to dry skin 15 to 30 minutes before going outdoors; you can use a sunscreen under makeup. A sunscreen should be applied in the morning, with further applications if you go swimming or perspire heavily. Don't reserve the use of sunscreen for sunny summer days; 80 percent of the sun's ultraviolet rays pass through clouds.

The Skin Cancer Foundation warns that the tan you get using a sunlamp at home may be the most dangerous tan of all.

A study in 1990 found that home users of sunlamps and sunbeds have a significantly higher risk of developing all kinds of skin cancer than those who patronize commercial tanning parlors. Artificial tanning devices emit three to 10 times the ultraviolet radiation found in sunlight, and home use cannot be regulated or restricted.

Early detection is the most important defense against any form of cancer. See a dermatologist if you notice a mole that has changed in size, shape, appearance, or texture, or if you see any new growth on the skin. It is important to check your entire body.

The Skin Cancer Foundation has outlined how to do a total body self-exam, which is an effective way to spot skin cancer in its earliest, most curable stages. To receive a free how-to brochure on self-examination, send a stamped, self-addressed business envelope to: Skin Cancer Foundation, Box 561, Dept. SE, New York, N.Y. 10156.

Phyllis M. Barrier is a registered dietitian and nutrition consultant in the Washington, D.C., area.



# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

## ADVERTISING

### On A Budget?

My service-oriented business has had success on a local level, and I now want to reach a national market. How do I go about advertising on a national basis on a limited budget?

G.P.A., Dallas



ILLUSTRATIONS: MARTHA WILSON

Among the several good books that address the topic of advertising are the following three, which are available in many bookstores:

*Succeeding in Small Business* (Penguin Books, \$12), by Jane Applegate, offers grounding on the subject in Chapter 73, "How Can Advertising Help My Business?"

## NETWORKING

### Trade Shows

I own a company that makes heating and air-conditioning parts, and my new accounts have begun to dwindle. I'm considering going to industry trade shows, but I'm not sure that the expense is worth it. Can you give me any advice on how I should proceed?

M.S., Kenosha, Wis.

According to surveys by the Trade Show Bureau, a nonprofit research organization based in Denver, 91 percent of visitors to trade shows find the expositions very useful in making decisions on their purchases.

Jane Lorimer, president of the bureau, suggests that a business set goals on how many solid sales leads it hopes to generate at an exposition. Then it should try to get in touch with prospects before the trade show and lay some groundwork.

*Advertising and Marketing Checklists* (NTC Business Books, \$17.95), by Ron Kaatz, has 77 checklists aimed at helping the reader develop an effective advertising strategy.

*The Advertising Handbook* (Self-Counsel Press, \$8.95), by Dell Dennison and Linda Tobey, contains a broad, detailed overview of the subject along with tips on how to structure advertising to promote a business. It is available at most bookstores or from Self-Counsel Press, 1704 N. State St., Bellingham, Wash. 98225.

Two other books that might help a growing company on a budget reach a national audience can be ordered by telephone:

*Advertising Trade Secrets* (Bristol-Hunter Publishing), by Joel Martin, an advertising and marketing consultant, examines ways to streamline advertising messages and improve response inexpensively. There is also a section on planning short- and long-term marketing strategies. The book is \$19.95 plus \$3 shipping; call (716) 834-5128.

*Great Ad! Low-Cost Do-It-Yourself Advertising for Your Small Business* (Liberty Hall Press), by Carol Wilkie Wallace, offers a wide range of helpful suggestions on how to use advertising effectively and keep within a budget. The price is \$19.95 plus shipping, handling, and sales tax. Call McGraw-Hill at 1-800-822-8158.

Lorimer also encourages participants in trade expositions to sharpen their one-on-one sales skills. They should be prepared, she says, to meet potential customers face to face.

The Trade Show Bureau offers a wide range of helpful publications on all aspects of exposition selling. To order a free catalog of publications, write or call the Trade Show Bureau, 1660 Lincoln St., Suite 2080, Denver, Colo. 80254; (303) 860-7626.

Another useful source of planning tips and general information is the International Exhibitors Association. The organization's monthly newsletter, *IDEAS*, has information on news, trends, and educational features of the exposition industry. An annual subscription costs \$35.

For more information, write or call the International Exhibitors Association at 5501 Backlick Road, Suite 105, Springfield, Va. 22151; (703) 941-3725.

## EXPORTING

### Doing Business Overseas

I have a small business. Do you have any information that could help me get started in exporting?

P.P., Oklahoma City, Okla.

(Similar questions from L.C.M., Hopkins, Minn.; T.N., Decatur, Ill.; B.D.P., Norwalk, Conn.; S.A., Washington, D.C.; K.T., Mount Joy, Pa.; and F.R., Albany, Calif.)

Start with the U.S. Commerce Department's Trade Information Center, which provides information—most of it free—on a wide range of programs and services available.

The Overseas Private Investment Corp., for example, provides financing to U.S. companies that want to trade in developing countries; the Export-Import Bank provides loans, loan guarantees, working capital, and export credit insurance to small companies that would like to operate overseas; and the U.S. State Department offers orientation on foreign markets.

The U.S. Commerce Department provides export counseling and market research, helps find overseas agents or distributors, provides sales leads, and organizes trade fairs. It also introduces U.S. business people and their products or services to foreign buyers through periodicals, catalogs, and personal meetings. (See also the exporting story on Page 57.)



For information on programs in your area, call the Trade Information Center at 1-800-USA-TRADE, or 1-800-872-8723. The hearing-impaired can call 1-800-TDD-TRADE, or 1-800-833-8723.



## BANKING

## A Report Card

I have just started my own small service business. Before I open an account with a bank, how can I check up on it?  
C.W., Columbia, Mo.

Bauer Financial Reports, Inc., a research and rating firm in Coral Gables, Fla., offers a complimentary service for first-

time callers. You may request a rating of up to two banks at no charge. Bauer's BankRater service provides information on whether a bank is satisfactorily capitalized and rates banks accordingly, ranging from one star to five stars. Bauer recommends only four- and five-star banks. Banks that are undercapitalized often face regulatory restrictions that may affect the extent of consumer services.

You may request an unlimited number of reports on different banks for a fee. The first bank summary is \$10, and each additional bank report is \$2. For more information, call Rhonda Guido at Bauer's Financial Reports, Inc., at 1-800-388-6686 between 8 a.m. and 8 p.m. Eastern time Monday through Friday.

## START-UPS

## Specialty Nurseries

I own and live on five acres that I would like to turn into a specialty nursery. Could you guide me to publications and any other help?

M.J., San Luis Obispo, Calif.  
(Similar questions also from F.T., Albany, Mo.; T.O., Bloomington, Ind.; and G.H., Ashland, Ky.)

The American Association of Nurserymen offers a free catalog of books, publications, and seminars on starting a specialty nursery. To receive a copy, send your written request along with an 8 1/2-by-11-inch, self-addressed envelope stamped with \$1 in postage to the association at 1250 Eye Street, N.W., Suite 500, Washington, D.C. 20005.

Regulations for starting a nursery vary

from state to state. Contact your state's agricultural department for more information.

## Coin Laundries

I am interested in starting a coin laundry. How do I begin, and how much will it cost?  
P.T., Elmwood Park, N.J.

The Coin Laundry Association can send you a free packet of start-up information, called "Going Into Business."

The association also offers regional workshops on trends, management issues, and the latest techniques within the laundry industry.

To request a copy of the packet, write or call the Coin Laundry Association at 1315 Butterfield Road, Suite 212, Downers Grove, Ill. 60515; (708) 963-5547.



## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, Nation's Business, 1615 H Street, N.W., Washington, D.C., 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

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# For Your Tax File

*How to keep taxes from trapping you.*

By Albert B. Ellentuck

## PLANNING

### How You Can Tap Into IRA Funds

As the economy continues to flounder, business people are constantly looking for sources of funds for themselves and their businesses. An Individual Retirement Account can be a good source of funds provided that the withdrawal rules are followed carefully.

Many people think they have to be 65 or over to withdraw money from an IRA. In fact, anyone can take money out of an IRA with a caveat: Distribution will usually be fully taxable as ordinary income to the IRA owner. The trick is to distribute the funds without penalty. This can be done anytime under the following circumstances:

- The distribution is part of a series of periodic payments based on the life expectancy of the IRA owner or the joint lives of the owner and a designated beneficiary. Income taxes are paid on annual distributions. Qualification of each distribution under this exception must be



**A person who is disabled—regardless of age—can obtain a lump-sum distribution from an IRA without penalty.**

shown on Form 5329 and submitted with your income tax return.

- Lump-sum distributions can be made in the event of the disability of the IRA owner.

- Upon the death of the IRA owner, a

lump-sum distribution can be made to his or her estate or to a beneficiary.

If an IRA owner takes money out before age 59½ for any reason other than those specified above, he or she must pay a premature-distribution penalty, which is an added tax of 10 percent of the taxable income withdrawn.

In any event, after the owner reaches age 59½, he or she can take out any amount desired in a lump sum or any type of periodical or nonperiodical payments. The amounts and timing of any withdrawal are completely discretionary.

But once an individual reaches age 70½, withdrawal of funds is no longer discretionary. Any individual must make withdrawals in certain minimum amounts or pay a tax penalty of 50 percent of the minimum amount not withdrawn.

The minimum withdrawal amounts are determined by the actuarial life expectancy of the IRA owner and the designated beneficiary.

## STOCKS

### A Capital-Gains Break For Small Businesses

Capital gains are once again something to be sought. Before the Omnibus Budget Reconciliation Act of 1993, there was only a 3 percent spread between the maximum capital-gains rate of 28 percent and the top bracket of 31 percent on ordinary income. Under the new law, with its top bracket of 39.6 percent, capital gains have again become highly desirable.

In addition, to promote the flow of capital to small business, Congress added an even better tax break for capital gains on the sale of certain small-business

stock. The new law allows a 50 percent exclusion for gain on the sale of qualified small-business stock that has been held for more than five years. This treatment will be allowed for up to \$10 million of gain, or 10 times a taxpayer's tax basis, whichever is higher.

The effective rate on these gains would be 14 percent or less, quite a spread between that and the top 39.6 percent bracket on ordinary income.

A qualified small business is a C corporation having a net worth of \$50 million or less. Additionally, the corporation must use at least 80 percent of its assets in the conduct of a qualified trade or business. Banking, insurance, financing, leasing, investing, farming, health, law, engineering, architecture, actuarial, accounting, performing arts, consulting, athletics, financial services, brokerage services, and certain other services are not permitted to benefit from this new provision.

Small-business owners or entrepreneurs who will be forming new corpora-

tions should be aware of these new rules and attempt to qualify the new corporation under these provisions wherever possible, particularly if there is ultimately an intention to sell the stock.

For example, all other things being equal, an S-corporation election may no longer be desirable where the small-business owner intends to sell the stock. If the owner forms a C corporation and the stock qualifies, when the business succeeds and the owner is able to sell the stock after five years the gain would be limited to an effective 14 percent tax rate, half the normal capital-gains rate.

Thus, for example, an owner who invests \$100,000 in a new business decides to utilize a C corporation rather than an S corporation. If the business booms and he sells all his stock for \$900,000, say six years later, he would have an \$800,000 taxable gain.

If the stock of his C corporation qualifies as small-business stock, the tax on the gain would be half the regular capital gains tax, a saving of \$112,000.



*Tax lawyer Albert B. Ellentuck is counsel to the Washington, D.C., law firm of King & Nordlinger. Readers should see tax and legal advisers on specific cases.*



# It's Your Money

*A monthly survey of strategies and suggestions to help you with your personal finances.*

By Peter Weaver

## TAXES

### Restaurants And Clubs Respond To Deduction Changes

Starting Jan. 1, under the recent changes in the federal tax law, when you buy a customer or a supplier a business meal, you can deduct only 50 percent of the total check. It used to be 80 percent.

Because such meals will now, in effect, be more costly for companies, some restaurants are responding with special rates and services.

"You will see a lot more value promotions," says Sharon Olson, president of the Olson Group, a Chicago restaurant-marketing firm. "For example, the Olive Garden chain now has special seating sections for business customers, along with low-cost business menus."

Also under the new tax law, dues for clubs, including airlines' executive lounges, are no longer deductible, although the 50 percent deduction will be permitted for business-related meals and beverages purchased at the clubs. Some airlines are considering including free lounge membership in their premium frequent-flyer programs.

As a result of the cutback in deductibility of business meals, companies that offer dining-discount cards are expected to make a bigger play for cost-conscious business hosts. "We have more than 3,000 restau-



PHOTO: GLENN ZARUBA—FOLIO, INC.

**Under the 1993 tax law, club dues, including membership in airline clubs at airports, are no longer deductible as a business expense.**

rants lined up for 25 percent discounts," says Don Clarick, senior vice president of IGT (In Good Taste), a dining-discount-card firm based in Miami Beach, Fla.

More information on dining-discount cards can be obtained from several com-

panies, including: Entertainment, 1-800-374-4464; IGT, 1-800-444-8872; Diners Club and Le Card, 1-800-234-6377; Premier Dining, 1-800-346-3241; Transmedia, 1-800-422-5000, or (202) 338-0578; and Travel World, 1-800-444-8952.

## ESTATE PLANNING

### Coming To Terms With "What If?"

What if your spouse were to die tomorrow? Would you have a contingency plan?

"When I meet with couples," says Martin Singer, a counselor with Summit Financial Resources, in Parsippany, N.J., "I ask what-if questions. What if John were to die? What if Jane were to die? Would each one continue to live in the house? Would each one have enough money to continue his or her lifestyle?"

Right off the bat, Singer tells couples he counsels that there should be enough

life insurance for both spouses because without that second income or home-management help, there could be severe financial and emotional consequences.

Each spouse has to address the tough "what if?" questions honestly, says Alexandra Armstrong, a Washington, D.C., financial adviser who co-authored *On Your Own* (Dearborn Financial Publishing) with Mary R. Donahue, a psychologist. "An older husband, for example, may not die first," she says.

Singer and Armstrong say both partners should have all the necessary papers and documents filed in a safe place, and those papers should be updated and revised regularly. You should have a copy of each partner's will, Social Security number, insurance policy, birth certificate, and military discharge papers if applicable.

If either husband or wife has a business partner, what happens to that spouse's shares upon death? Do they go to the

surviving spouse? Or is there sufficient buy-out insurance, with a signed legal agreement, for the business partner to pay the surviving spouse for the deceased person's shares? (For more on this topic, see "Preparing For A Shift In Ownership," on Page 44.)

Singer advises that you have your lawyer, accountant, financial adviser, insurance representative, and banker "tuned up and operating in advance."

You have to ask yourself how well you can really function without your husband or wife. For example, maybe one spouse did the investments and one did the monthly bills. Would the survivor be able to pick up the slack and know what to do?

Armstrong's book was originally intended as "a widow's passage to emotional and financial well-being." But by changing the word "husband" to "spouse" and "widow" to "survivor," you can convert the book into a contingency planner for either husband or wife.



Peter Weaver is a Washington-based columnist on personal finance.



## AUTOMOBILES

## Color Can Affect A Car's Resale Value

When you buy a new car, the color you choose can affect the amount you get when you eventually trade it in or sell it.

According to a recent survey conducted by the National Association of Fleet Resale Dealers, based in Pacific Palisades, Calif., white cars 3 to 4 years old with red interiors draw \$522 more, on average, than brown cars with earth-tone interiors that are otherwise identical in age and equipment. Red cars with red interiors resell for about \$520 more than otherwise identical gold-metallic cars with earth-tone interiors, the survey says.

"White is popular because it is a neutral color—you can match it with any interior color—and it resists sun damage, doesn't show the dirt, and is easy to maintain," says the association's executive director, William Nerenburg. Why is red a good draw? "It seems that a flashy

red car gives pleasure to the eye," says Nerenburg, whose association's members sold more than 200,000 cars last year. Racing green, which was once at the bottom of the list, has moved up to eighth for resale and fifth for new-car purchases, Nerenburg says.

According to the survey from the fleet



*If you want to get top dollar when you resell your new car in a few years, consider the color red.*

resale dealers' association, the most popular exterior colors for used automobiles are red, white (a close second), burgundy, blue, and turquoise.

## MORTGAGES

## First-Time Home Buyers Get A Helping Hand

Suppose a married young son or daughter now renting an apartment asks your advice on how to obtain more room to accommodate a growing family. Should the young people move to another, bigger rental property? Or should they take the plunge and buy their first home?

"You have to look at what you are paying for rent and what you would accept as an alternative, purchased home," says John Moore, a faculty member at the College for Financial Planning, in Denver. You have to figure out the after-tax cost of owning and renting. An accountant, real-estate agent, or local lender can help you with the calculations.

"If it looks like owning would pay off in the long run, there's a lot of financial help available for getting special mortgage considerations," Moore says.

Under a Federal Housing Administration (FHA) program, the borrower has to put up only 3 percent of the home's value. And, through some community-assistance programs, first-time borrowers can get special, unsecured loans or grants that can eliminate the 3 percent requirement entirely. Some programs even cover the closing costs.

The Federal Home Mortgage Corp. (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) are the two big government-chartered corporations that help provide money for home

mortgages. They both have special programs for first-time home buyers.

A Freddie Mac program, Affordable Gold, requires a 5 percent down payment, which can be whittled down to 3 percent through community housing programs, family gifts, or an unsecured loan from a chosen lender.

There is one catch, and parents of young homeowners might like it. Borrowers are required to take a short course in the responsibilities of being a homeowner: selecting a home, budgeting, working their way through the loan-application maze, and closing.

The Fannie Mae program, Opening Doors, provides a list of lenders interested in helping first-time home buyers, plus a list of counseling groups offering homeowner courses similar to Freddie Mac's.

For more information, contact your local FHA office or a bank, savings institution, or mortgage broker.

## New Loans Available For Home Remodeling

You've got a nice house, but it could stand some remodeling. Or perhaps one of your adult children wants to buy a good-value "fixer-upper" that needs a lot of work.

This kind of remodeling or improvement could cost a lot of money. And let's say you can't get a loan because the real-estate market or some other circumstance has left you with little or no equity.

## TRAVEL

## The Security Concerns Of Business Abroad

Americans looking overseas for lucrative business opportunities should also be mindful of the dangers.

"The biggest mistake many American business travelers make in developing countries is trusting uniformed officials who may not necessarily be trustworthy," says E.C. "Mike" Ackerman, managing director of The Ackerman Group, a Miami Beach, Fla., security consulting firm.

Ackerman advises travelers to be informed about where they are traveling and to keep a low profile at airports, in hotels, and around town. "Dress down," Ackerman says. "Don't look like a promising target."

Security experts also advise that you have a trusted company employee meet you at the airport, or, if that is not possible, take an authorized airport cab.

For a free copy of Ackerman's 32-page booklet, *Managing Terrorism Risks*, published by the Chubb Group of Insurance Companies, write to Chubb and Son Inc., Executive Protection Department, 15 Mountain View Road, Warren, N.J. 07059.

For a report on a country's security, call the U.S. State Department's Bureau of Consular Affairs at (202) 647-5225.

Not to worry. There's a new type of mortgage that may enable you to borrow money based on the "completed value" of your home after the remodeling or renovation work has been done. You can borrow up to 90 percent—in some instances, 100 percent—of the appraised future value.

The program is called the Home Style mortgage, and it's backed by Fannie Mae. The FHA is also involved in the program with its 203(k) renovation-loan program.

There are two types of loans. One involves a conventional home-improvement second mortgage, and the other works with refinancing by lumping both the refinanced portion and the improvement loan together into a consolidated first mortgage.

As an added attraction, you get a consumer-protection feature built into the deal. "We have to approve the soundness of the contractor you're using and the soundness of the plans before you start," says Norman Carniol, president of Home Mortgage Corp., a Home Style participating lender in Levittown, N.Y.

When the work is finished, Carniol says, "we won't disburse the funds for the contractor unless the borrower is satisfied that everything has been done correctly according to the plans and specifications."

For a list of participating lenders and a brochure with more details on how the loans work, write to Fannie Mae, Public Information Office, 3900 Wisconsin Ave., N.W., Washington, D.C. 20016.



# Franchising SPECIAL GUIDE

## In March A Special Report Examines New Partnerships In Franchising

Attitudes are changing. Franchisors and franchisees are building new relationships. A Special Report by our franchising specialist, Meg Whittemore, looks at the long-term effects of this movement.

Ms. Whittemore, a Nation's Business associate editor, interviews franchising experts as well as franchisors and franchisees to give you an insider's look at this issue.

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# Where I Stand



PHOTO: STEVE H. FUNK—THIRD COAST

## ON UNFUNDED MANDATES

Results of this poll on federal laws that force states and cities to increase spending will be provided to the administration and to congressional leaders.

Mail the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

**1** Opponents of unfunded mandates say it is irresponsible of Congress to pass such requirements without regard to the ability of states and cities to pay. Do you agree?

1. Yes
2. No
3. No opinion

**4** Legislation pending in Congress would ban enactment of any more unfunded mandates. Should this bill be passed?

1. Yes
2. No
3. No opinion

**2** Should Congress be required to assess the impact on state and/or local taxpayers of every mandated spending bill?

1. Yes
2. No
3. No opinion

**5** One proposed solution is funding the mandates by restoration of federal grants to states and cities. Do you back this solution?

1. Yes
2. No
3. No opinion

**3** Should each Congress be required to make public a cumulative total of spending that it has mandated on states and localities?

1. Yes
2. No
3. No opinion

**6** Some state legislatures press their members of Congress for formal explanations of new mandates. Should all states do the same?

1. Yes
2. No
3. No opinion

**Send Your Response Today!**



## POLL RESULTS

# Readers' Views On Health Reform

**F**orty-seven percent of the respondents to the November *Nation's Business* poll on health care said they would join a health-insurance purchasing cooperative if doing so could save them 15 percent on their costs. Sixteen percent said they would not join, and 37 percent were undecided.

Purchasing cooperatives, or health alliances, are a key feature of President Clinton's health-reform package. The alliances would give small employers more leverage in the marketplace by pooling their employees for the purpose of negotiating lower prices on health insurance.

The president's health-care reform package also includes a mandate that all companies pay 80 percent of the cost of their workers' health insurance. A slight majority of the respondents to the Where I Stand poll said that's too high and favor limiting an employer's share of costs to 50 percent or less.

Seventy-three percent of the companies responding to the poll provide health insurance for their workers. Among those who do so, slightly more oppose mandatory coverage than favor it.

Two-thirds of the respondents employ fewer than 25 people.

Here are the complete results of the poll:

## HEALTH REFORM

■ How many workers do you employ?	1. Under 10	41%
	2. 10-24	27%
	3. 25-50	16%
	4. More than 50	16%

■ Do you currently provide health insurance for your employees?	1. Yes	73%
	2. No	27%

■ If you answered no to Question 2, skip to Question 4. If you answered Yes, do you think other employers of a similar size should be required to provide health insurance for their workers?	1. Yes	39%
	2. No	47%
	3. Unsure	14%

■ If a group-purchasing cooperative could save you 15 percent on health-insurance costs, would you join?	1. Yes	47%
	2. No	16%
	3. Unsure	37%

■ What percentage of an employee's health-insurance premium should be paid by his or her employer?	1. 100 percent	11%
	2. 80 percent	23%
	3. 60 percent	12%
	4. 50 percent	30%
	5. Less than 50 percent	24%

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# Editorial

There is a growing sense on Capitol Hill that 1994 will see congressional approval of a constitutional amendment requiring a balanced federal budget. It would then go to the states, where the expected ratification by 38 legislatures would make the proposal the 28th amendment in the 204-year history of the U.S. Constitution.

Two questions arise from the prospect that the amendment will finally clear Congress after many years of debate and defeat: Is such a mandate actually needed? Why is congressional approval any more likely this year than it has been in the past?

First, the need.

For nearly 50 years, Congress has been talking about and at times implementing various budget procedures in the name of fiscal restraint. In that period, five annual budgets have shown surpluses totaling \$22 billion, and the rest have had deficits totaling \$4.2 trillion.

That history is a direct response to the key argument against a balanced-budget amendment—that there are now no restraints on Congress to keep it from matching income and outgo in the federal accounts. That is legally correct, but the history of failed attempts demonstrates the power of spending pressures over legislative restraints that can be rescinded, evaded, or eased.

A constitutional mandate offers no such escape hatches.

The second question is why a balanced-budget amendment should have any more success now than in the past.

The basic reason lies in the changes taking place in national politics. In the past 14 months, voters have ousted the incumbent party in a presidential election, in contests for mayor of the nation's two largest cities, in two U.S. Senate races, and in the only two gubernatorial elections held last year.

Like any employer concerned with results, the electorate has served notice that officeholders must produce or be replaced. And many of those officials are aware of the ultimatum. We noted in this space last month how quickly voters' concerns demonstrated in the November elections had been translated into legislation.

Lawmakers' efforts to determine and respond to voters' expectations will intensify with the approach of the 1994 congressional elections.

Members of Congress, particularly those who campaigned in 1992 on pledges to curb government spending, will be particularly eager to cast a vote for a balanced-budget amendment, which has overwhelming support in the nation at large.

The amendment has come close to gaining the needed two-thirds approval in each house of Congress, and the current political tides could easily assure victory.

The proposal most likely to win approval is that sponsored in the Senate by Paul Simon, D-Ill., and Orrin G. Hatch, R-Utah, and in the House by Charles W. Stenholm, D-Texas, and Robert F. Smith, R-Oregon. It would prohibit deficit budgets unless three-fifths of the members of each chamber voted otherwise.

The same "supermajority" would be required to raise the federal debt limit, and a constitutional majority of each house—51 senators and 218 representatives—would be required to raise taxes. The latter provision would make it harder to approve tax increases. Such legislation can now be approved by a majority of the members present and voting, even if that number is a minority of the full membership.

Business views a balanced-budget amendment with those provisions as a means of halting the business-as-usual spending tactics that, at the present rate of acceleration, could send the national debt past \$10 trillion by the end of this decade. And remember that it was only 11 years ago that the debt passed \$1 trillion.

Says the U.S. Chamber of Commerce: "Escalating federal deficits necessitate large tax packages that sap the nation's savings, displace capital investment, slow economic growth and job creation, and weaken the competitiveness of U.S. firms."

The critical need to avoid those consequences of red-ink spending makes the strongest possible case for congressional approval of a balanced-budget amendment this year and its prompt ratification by the states.





# Free-Spirited Enterprise

By Janet L. Willen

## A Kiss Is Just A Kiss

Just in time for New Year's parties, **Fran Wilson Creative Cosmetics**, a lipstick manufacturer in New York, offers its guide to kissing etiquette.

*The Moodmatcher Lipstick Lovers Society Manual* instructs you on the nuances of the 13 basic kisses, including the New Year's Eve Kiss. For business people, there is guidance on when to kiss and when



ILLUSTRATIONS: SHARON COHEN

to shake hands. And for lipstick lovers, the lipstick company gives cosmetic tips.

For a free manual, send a self-addressed envelope with a 52-cent stamp to Moodmatcher Lipstick Lovers Society, P.O. Box 3524, Grand Central Station, New York, N.Y. 10163.

## Not For Lovers Only

For those times when fresh breath is important, **Liberty Natural Products**, of Portland, Ore., makes an all-natural breath freshener that its manufacturer says may also help people diet and quit smoking. The mint-based product's strong taste is stimulating, says the company, so it satisfies a smoker's or dieter's cravings.

The TIB Breath Freshener is made of essential oils from flowers, fruits, and trees. The product comes in vials the size of cold capsules and has a plastic-tip applicator that you dab on your tongue. Each vial is good for about 200 dabs.

TIB, which stands for toothpick in a bottle, is available in 15 flavors. Vials cost about \$1.50 each. The company also makes essential oils for cooking. For more information, call 1-800-289-8427.

## Political Promises

If your resolutions are of a political nature, the T-shirts and sweat shirts from **Speak Out Now!**, of Arlington, Va., may be for you.

The company makes a variety of "politically incorrect" T-shirts, including one that says "Politically Incorrect" on the front and "Free Minds, Free Markets, Free Society" on the back.



Shirts come in white with black letters or navy blue with white letters and in adults' and children's sizes. Adults' short-sleeve T-shirts cost \$13.95, and adults' sweat shirts cost \$22.95, plus postage and handling. Children's T-shirts are \$8.95. Hats, bibs, mugs, and bumper stickers are also available.

For more information, call 1-800-4PI-TEES, or 1-800-474-8337.

## Bubbles In A Bottle . . .

Now you can give the bubbles without all the booze. **Private Cellars, Ltd.**, of Wilmington, N.C., lets you personalize bottles of its nonalcoholic Privée

champagne for gift giving. Labels leave room for a handwritten message, or you can have the company custom-print your greeting. If you would rather add a card, you can choose a bottle with a regular store label.

Personalized nonalcoholic Privée champagne costs from \$10 to \$12.95 per bottle.

The company makes other nonalcoholic wines costing \$6.95 to \$9.95 per bottle.

A caveat for nondrinkers: Nonalcoholic wines contain a minuscule amount of alcohol: 0.05 to 0.50 percent.

For more information, call 1-800-800-4436.

## Bubbles In A Hat

For a romantic New Year's Eve, **Long Stemmed Chocolate-Chip Cookies**, of Garden Grove, Calif., makes a holiday arrangement for two.

The package, called Champagne Wishes for the New Year, is a top hat containing a bottle of champagne or sparkling cider, a bouquet of flowers, two wine glasses, two cloth napkins, and a dozen chocolate cookies—each on an artificial long-stem rose.

The New Year's package costs \$45 plus tax, plus \$8 for three-day shipping. The company requests five days' notice. For more information, call (714) 892-8825.

## Promises, Promises

After the partying and the bubbly comes the time for resolutions.

If you resolved to exercise but can't seem to leave your chair, take a look at "Chair-A-Cise." This 30-minute tape

leads you through a workout that you do while sitting.

**Kresics Total Body Workout**, of Woodbridge, Va., which created the tape, says the exercise program combines stretching, aerobic, and muscle-strengthening routines. You use special rubber bands for some exercises.

The tape costs \$9.95. Two half-inch-wide rubber bands cost \$2.50.

The tape and bands are available at most chain department stores, or call (703) 720-0863 for more information.

## Do The Right Thing

When you ring out the old and ring in the new, who proposes the toast?

Anyone, says Sheila M. Long, author of *A Quick Reference To Dining Etiquette*.

Long's 103-page book is a step-by-step guide to entertaining. Along with advice on how to propose a toast, she describes how to eat, treat guests, and dine at business meetings. She even gives the do's and don'ts—mostly don'ts—of cellular phones at dinner.

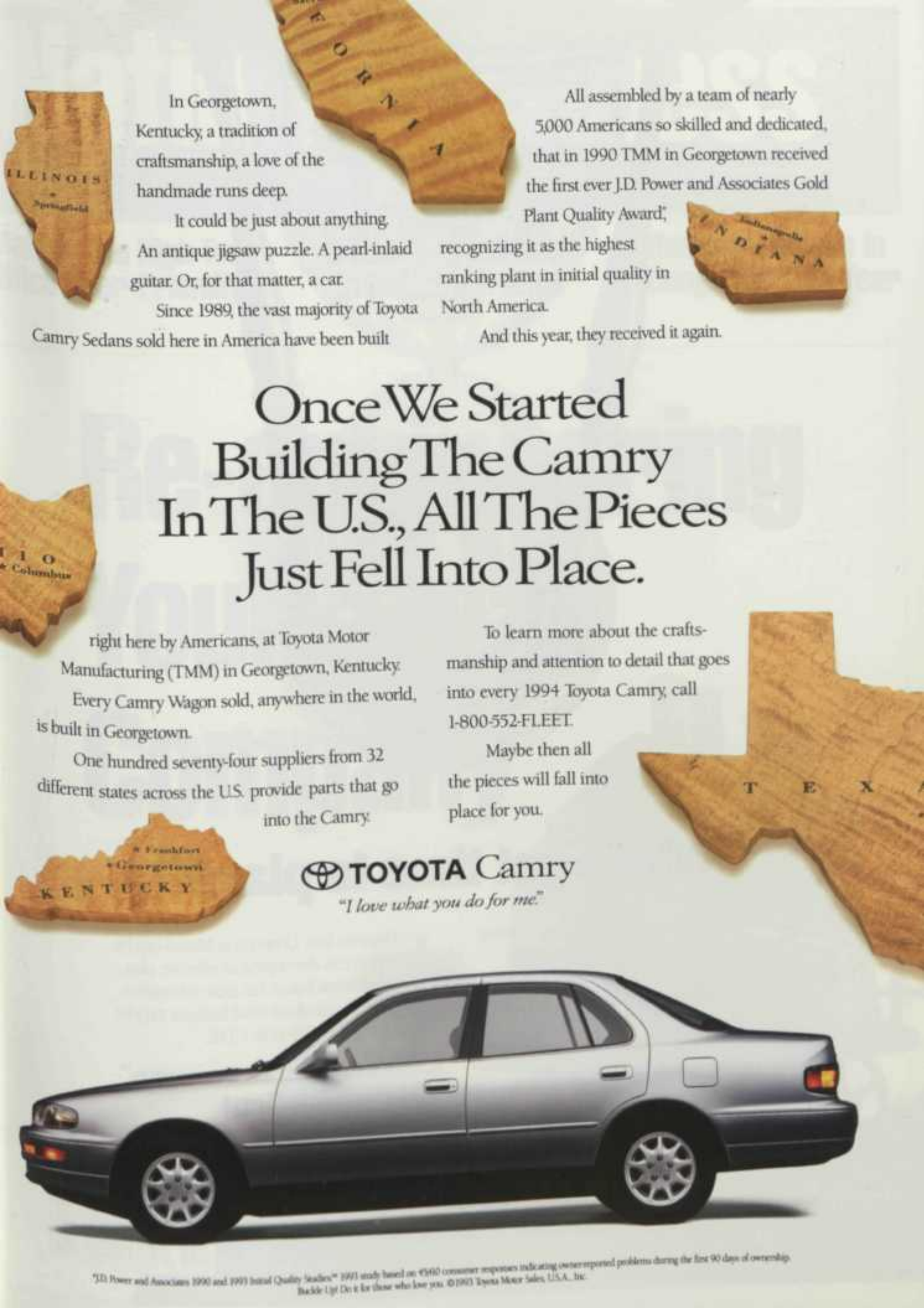


The book is available from **Redbird Publishing** for \$7.95, plus \$2.50 for shipping and handling.

For more information, call 1-800-856-1414.







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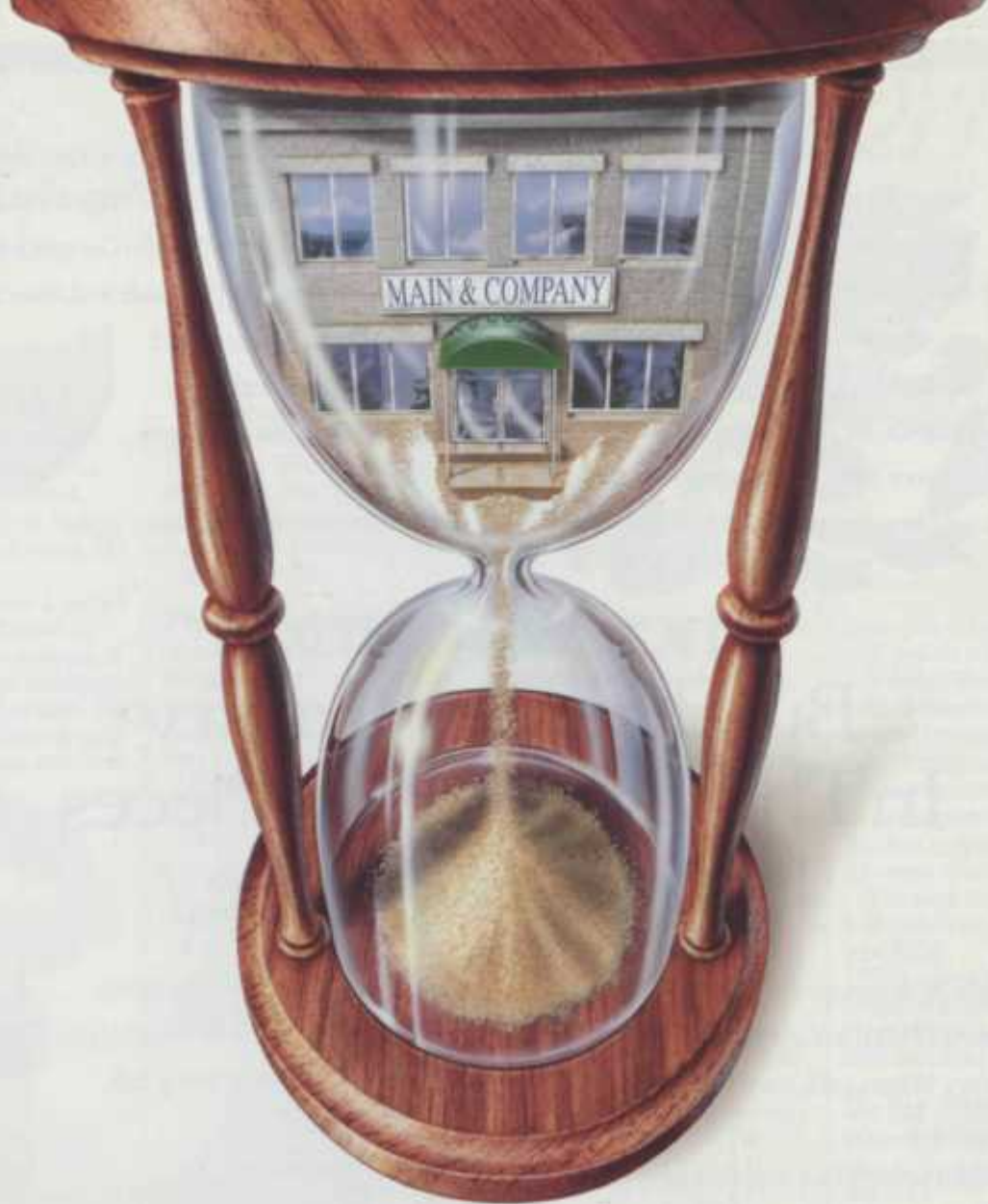
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